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No. 2311



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INVESTMENTS IN CAPITAL ASSETS UNDER SET OF MEASURES VIEWED

Prague *PLANOVANE HOSPODARSTVI* in Czech No 5, 82 pp 25-33

[Article by Eng Olga Rehtackova, Federal Ministry of Finance: "Investment Policy and Capital-Asset Replacement Under the Set of Measures;" portions within slanting in bold face]

[Text] Improving the effectiveness of capital investment is one of the important tasks of current economic policy. A number of measures have been adopted in the interest of assuring this, among which an active role for finance has been accorded a significant place. This follows in particular from the fact that the current system for financing capital-asset replacement is designed, above all, to assure the implementation of those investments contained in the state plan for national economic development. In this sense, finance represents an important component of the planned management system.

The assurance of the state capital investment plan, however, is only one of the tasks fulfilled by finance in the area of capital-asset replacement. Its second important role is to exert economic pressure and a stimulative effect on the decisionmaking process in capital investment and their implementation, on an increase in effectiveness and efficiency, both during the period of plan preparation and during its fulfillment.

With Resolution No 23, the federal government approved in 1979 a special set of measures for the planning and management of capital-asset replacement, a portion of which was incorporated in the Set of Measures for Improving the Planned Management System of the National Economy After 1980. Some of these were implemented during 1979 and 1980, for instance in FMTIR [Federal Ministry of Technical and Investment Development] Directive No 8/1979 concerning management at times of increases in budgeted costs for incomplete construction projects and during a shift in deadlines for delivering facilities for testing and for the completion of construction projects, and in FMF [Federal Ministry of Finance] Decree No 3/1980, Laws of the CSSR, updating Decree No 22/1967 concerning the financing and payment for deliveries for capital investment and deliveries of geological tasks, etc.

The applicable provision of Decree No 22/1967, Laws of the CSSR, concerning the possibility of stopping payments by the consumer if a contractor is more than one calendar quarter in arrears of the progress of work or of deliveries

due to circumstances which impinge exclusively on the contractor, has been supplemented by Decree No 3/1980, Laws of the CSSR, which established a penalty for contractors who do not fulfill planned deadlines for construction projects designated as binding tasks of the state plan and for centrally evaluated construction projects. For these construction projects (according to the planning methodology of the Sixth Five-Year Plan) for which the CSSR Government has established a deadline for delivering the facility for testing or for completion of construction as a binding task of the state plan, this decree prohibits the investor from providing payments if a shift in deadlines become necessary. In this case, the investor may not provide payments for the time following the planned deadline for the delivery of the facility for testing or for the completion of construction until such time as the CSSR Government decides on a new deadline or until the actual delivery of a facility for testing or the actual completion of construction if the government approves alternative deadlines. In this case, there is no renewal of payments for practical purposes, because following the completion of deliveries there arises the right to invoice. A renewal of payments is the issue at those times when the government decides on a new deadline. This, however, is a matter of an exceptional case, because a new deadline is established only when delays in construction were not caused by any of the participants in the project or by their supervisory organs. The prohibition on giving payment stubs to a contractor applies to the objective reality that a construction project established as a binding task of the state plan has not been finished by the planned deadline; thus, which of the participants in the project caused the delay is not critical in order to invoke the decree. The contractor then is forced to locate financial resources for himself in the form of credits from the Czechoslovak State Bank, at a significantly higher interest rate. To the extent that he did not bring upon himself the damage represented by this higher interest, he has the right under the commercial code to petition for its return from the organization which caused the damage by not fulfilling its obligation.

From the above, then, it is clear that by the end of the Sixth Five-Year Plan a number of concrete measures had been implemented in the area of capital-asset replacement, which were intended to achieve the following:

- /increased quality of investor and design preparation for construction projects;
- /stability in the decisionmaking process;
- /an improvement in direct management;
- /the thorough fulfillment of state plan tasks and of obligations contained in economic agreements;
- /the timely completion of construction projects and startup of facilities;
- /adherence to construction schedules and the budgeted costs of projects./

The measures which have been adopted have been directed primarily at strengthening capital-asset replacement, particularly by stressing an increase in quality from the view of content, feasibility, links with other parts of the plan and strengthening its managerial function within the overall national economy. By improving the function of state experts and increasing accountability, the conditions are being created for an increase in the quality of concrete management and decisionmaking at all levels. In this way, the preconditions have also been created, with some lead time, for the implementation of tasks stemming from the Set of Measures for Improving the Planned Management System of the National Economy After 1980 in the area of capital-asset replacement.

Assuring the Intentions of the Set of Measures in the Financing of Capital-Asset Replacement

According to a resolution of the 16th CPCZ Congress, the objective of investment policy after 1980 is to achieve a significant increase in the efficiency of capital investment. This intention is to be achieved especially through greater utilization of existing facilities, the implementation of scientific and technical development, the priority implementation of progressive, effective reconditioning and modernizing investments with a rapid payback period, the rapid completion of incomplete construction projects, the startup of production facilities in accordance with their design parameters, a reduction in incomplete construction projects, a shortening in construction schedules, adherence to budgeted costs and the technical-economic parameters of the construction project.

Measures which have been adopted so far, a number of which are contained in legal regulations (for instance CSSR Government Ordinance No 161/1980, Laws of the CSSR, concerning financial management, Decree No 162/1980, Laws of the CSSR, concerning the financing of capital-asset replacement, and the new decree concerning construction documentation, valid as of 1 January 1982), and planning methodology are, then, oriented both to an improvement in the preparation and planning of investments and also the influence of khozraschet principles and instruments in the overall process of capital-asset replacement.

/Since 1980, the financial system is supposed to have contributed to an increase in the efficiency of the entire process of capital-asset replacement. A fundamental criterion for strengthening the role of financial-economic instruments is, especially, the application of the VHJ [Economic Production Unit] khozraschet principle. Both responsibility and economic incentives are oriented in this direction. Tasks directed at activating the influence of financial-economic instruments are being formulated in such a way that they strengthen the khozraschet accountability of a VHJ for optimal efficiency within the plan, create economic pressure for rational economic decisionmaking in the generation and utilization of financial resources for investment and in the event of deviations from the plan caused by a lack of financial resources. The efficiency of the financial system and its influence on the effectiveness of capital-asset replacement will be based to a large extent on the relationship between the formation of financial resources and their

effective utilization. Thus, through the medium of the financial plan and financial and credit instruments, pressure is to be created on the efficiency and effectiveness of capital investment when formulating the plan for capital-asset replacement, when choosing investment projects, and during plan fulfillment. At the same time, preference is to be given to the modernization and reconstruction of capital assets over new construction./

Most noteworthy in the area of financing is the fact that, in comparison with the preceding period, most VHJ and enterprise investments are being financed with their own financial resources (mainly profit) and with bank investment credits. On the other hand, the percentage of subsidies from the state budget for investment projects has been reduced, and these are granted only in exceptional instances and according to principles approved by the CSSR Government. There has thus arisen the desired planned khozraschet connection between the arrangement of a portion of investments and the economic performance of the VHJ or the enterprise in question. This mutual connection between the need for financial resources for investment and economic performance, when incorporated in five-year and annual plans, is intended to exert an influence within VHJ and enterprises in two basic directions: on the one hand, in the direction of financial resource formation, above all, for the achievement and even the exceeding of planned profit levels, and, on the other hand, in the direction of the effective and efficient expenditure of financial resources to achieve the maximum return for the enterprise.

The following fundamental documents assure the implementation of the Set of Measures and of the preceding demanding tasks for the financial system in the area of capital-asset replacement:

--FMF and chairman of the State Bank of the CSSR Decree No 162/1980, Laws of the CSSR, concerning the financing of capital-asset replacement;

--General Principles for the Granting of State Budget Subsidies for Capital Investment, approved by CSSR Government resolution No 402/1980, and the implementational guidelines of the FMF and Czechoslovak State Bank for the securing of, drawing on, and control of investment subsidies (published in the Financial Report, No 1/1981);

--Principles of Domestic and Foreign Bank Currency Policy After 1980, approved by the CSSR Government, No 400/1980, and by Decree No 157/1975, Laws of the CSSR, of the chairman of the Czechoslovak State Bank concerning the granting of credits;

--FMF Decree No 151/1978, Laws of the CSSR, concerning the merging of resources of socialist organizations;

--FMF Decree No 153/1980, Laws of the CSSR, concerning fines for the delayed startup of machinery, accessories, equipment, transportation assets and imported investment projects.

The decree concerning the financing of capital-asset replacement implements a basic administrative change in this area, i.e., a definite orientation of the

investment process toward the economic performance of VHJ and enterprises. This has been especially evident in the new technique for financing investment from two funds: the capital-formation fund and the development fund, with the development fund conceived of as an economic incentive fund.

The /capital-formation fund/ is the fund which assures the financing of planned investment requirements. The capital-formation fund is the financing source for critical investment projects, especially binding tasks, centralized construction projects and other construction projects of over Kcs 2 million in budgeted costs. This is a matter, predominately, of investment projects specifically designated in the state plan or in economic plans.

The sources of financing for these investments are, above all, profits and depreciation, subsidies from centralized sources, bank credits for projects with a short payback period and, in exceptional instances, state budget subsidies and other resources (for instance, from the liquidation of capital assets).

The fundamental criteria for the financing of investments from the capital formation fund are their planned and projected technical-economic parameters. If these parameters are not met, it is in principle impossible to finance these investments either with credits or with state budget subsidies; the financial requirements stemming from shortcomings which arise during the carrying out of investments financed from the capital-formation fund (failure to meet construction schedules, exceeding of budgeted costs), will be covered principally from the development fund. It is necessary to perceive in this provision substantial pressure to increase the quality of planning of capital investment even at the level of financial management.

The /development fund/ is a new fund of economic incentives which has proven itself over a period of 3 years in the comprehensive experiment of efficiency and quality management. Its purpose is to influence both financial-resource formation and the effective expenditure of these resources in the area of capital-asset replacement.

The development fund is formed in industrial and selected construction organizations, as a rule, by allocations from profits and from capital-asset depreciation, with the allocation from profits being tied to the fulfillment of a return on the operating-assets indicator and the sales-structure indicator.

Certain other resources may also be allocated to the development fund, which the VHJ or enterprise obtains, according to regulations, by providing incentives for technical sophistication and quality, or in some cases for the level of fashionability of its products (a quality-goods markup), from economic incentives for exports, and for undertaking a greater profit than established as the objective for the formulation of the implementation plan.

The development fund is utilized primarily for the financing of construction projects of up to Kcs 2 million in budgeted costs of machinery and equipment

not included in the construction budget, including the design documentation and payments or the investment credits for this investment. Bank credit is also used for the financing of these investments.

The possibilities for carrying out investment projects to be financed from the development fund are determined primarily by internal resources formation. Through the development fund, a significant portion of VHJ and enterprise investments (about 40 percent in industry and up to 80 percent in certain VHJ) come into direct contact, both in the plan and in reality, with economic performance, with the resultant positive and negative consequences for the magnitude of these investments. This is not, of course, a matter of unplanned investment. The state plan establishes a not-to-exceed limit for the overall volume of these investments for central branch organs. These organs must, therefore, when breaking down investment projects for their subordinate VHJ, also create the necessary reserves so that those VHJ which generate, through better management, more resources in the development fund can also carry out these investments. For those VHJ where the managerial performance is such that the necessary financial resources are not generated for the development fund, measures will have to be taken to consolidate management.

Drawing on resources from the development fund is conditioned not only by internal resource information, but also by the fulfillment of previously established criteria for investment effectiveness which have been issued by the FMTIR.

/The above principles, then, place substantially greater demands on the sophistication and rationality of economic decisionmaking. They directly require higher quality and an intensification of the planned character of the entire process of capital-asset replacement, and represent a significant deepening of khozraschet relations, and in particular of economic accountability and incentives, a substantially more intensive integration of the plan and khozraschet and, on this basis, a more active and effective influence for the financial plan, financial-economic instruments and financial relations in their most extensive manifestations./

One of the main problems is the /means of financing repairs, modernization and reconditioning/ of capital assets. In this area, the principle continues to apply that for the realization of repair, modernization and reconditioning projects which fulfill certain conditions established by decree there is no need for a material investment limit, or for resources in the development fund because such projects may be financed from operational, noninvestment resources. In view of the general tautness in capital-asset replacement plans, organizations are often motivated to attempt to shift investment projects to the repair category, that is, to place them outside the capital-asset replacement plan. This attempt is often supported by the substantial difficulties involved in determining the nature of the project and, based on this, the means for its planning and financing.

It is generally acknowledged that in addition to the physical wearing out of capital assets there is also an obsolescence factor. This means that capital

assets may, to be sure, be in a physically usable condition but that their further use is economically ineffective, meaning that it would be more efficient to remove them from the production process (they consume more labor value added than is socially necessary in the given conditions, and pass on to the product more necessary work and higher costs).

Obsolescence comes about through increases in labor productivity in the production of capital assets and through technical development. Capital-asset obsolescence consists, on the one hand, in the fact that through depreciation more past work is being passed through to products than for newer capital assets, and, on the other hand, is evident through technical development, i.e., primarily through an increase in performance of new capital assets. Organizations using obsolete capital assets, then, are at a disadvantage because their production costs are higher than the social costs expressed in prices, which means lower profitability for them.

/Modernization, as it is defined by the decree on the financing of capital-asset replacement, should then contribute to a prolonging of the useful life of capital assets and moderate the effects of their obsolescence. One of the most important objectives of modernization is to improve the technical parameters of capital assets to the extent that they assure production comparable to that of the newest machinery and equipment, and products with the lowest possible production costs. The efficiency of modernization is measured as a rule by the absolute contribution expressed as the level of net production, labor values added, profit and the reduction of unit costs./

Reconditioning marks the most extensive intervention into the technical and structural components of a capital asset; it changes its technical parameters, and in some instances its function of purpose. As a rule, reconditioning results in a complete renovation of the capital asset.

Modernization and reconditioning are by their nature components of the category of investments; costs incurred for them raise the base cost of the capital-asset. As an independent project, modernization and reconditioning are financed from investment resources within the framework of the capital-asset replacement plan either by means of the capital-formation fund or the development fund. Certain reconditioning and modernization carried out at the same time as capital-asset repairs, which is the most efficient approach, may be financed, given the fulfillment of conditions established by decree (the maximum amount of budgeted cost for modernization or reconditioning), within the framework of repair costs, i.e., from operating, noninvestment resources.

Capital-asset repairs, on the other hand, are an independent category of capital-asset replacement; their objective is to eliminate partial physical wear or damage, to bring the capital asset to an operational condition which is in accordance with current requirements of scientific and technical development and work safety.

Capital-assets, you see, lose their original use values during use, and this is connected with a reduction in their general value. In practice, this is

primarily manifested by a decline in performance, a gradual loss of working ability from the viewpoint of product quality, increased energy consumption and, last but not least, increased costs for maintenance and repair (in many cases to an extent which renders further operation uneconomical). Wear and tear on capital-assets is also often caused by a poor environment (dust, humidity and the like) and nonprofessional handling (neglect of maintenance, etc.). The losses which result from this physical wear and tear on capital assets are substantial and represent billions of korunas of value annually for the national economy.

In contrast to wear and tear, which may be limited by repairs and maintenance, obsolescence may be eliminated principally by modernization. At certain times, both forms of wear and tear may be operative simultaneously, meaning that in eliminating them, the use of all of the above remedies in unison often leads to greater efficiency. This reality is taken into account by the decree which provides incentives for the modernization and reconditioning of capital assets-carried out simultaneously with their repair, on the condition that the budgeted cost (after excluding repair costs from the total budgeted cost of the project) amounts to a maximum of Kcs 5 million. For capital-assets whose purchase cost does not exceed Kcs 10 million, the budgeted cost may amount to no more than 50 percent of the purchase price. Preferential treatment for these joint projects lies, above all, in the financing and planning methods; they are financed from operating (noninvestment) resources as repairs and are planned for within the framework of repair costs. The condition for the utilization of this possibility for financing and planning is the specification of costs for repair and for modernization or reconditioning in an aggregate budget, and an increase in the base price of the capital-asset by the amount of the costs expended on reconditioning or modernization.

/The Set of Measures mandated, in the interest of greater effectiveness, a deepening efficiency by the financial system in the area of capital-asset replacement, above all by increasing the percentage of internal VHI and enterprise resources and reducing the role of the state budget in investment financing, the incorporation of shortcomings in investment implementation into the results of financial management and also, to an established extent, into economic incentives. The conditions were created for this by modifying taxes on profits for the state budget (by reducing taxes on profits), at the same time that a single relationship between organizations and the state budget was established in principle, i.e., a tax on profits without subsidies for investment. This serves to strengthen khozraschet management and limit the reallocation of resources through the state budget to a minimal level, thereby implementing at the same time the fundamental principle established by the Set of Measures for subsidy policy, i.e., state budget subsidies are to be applied as a completely exceptional source for the financing of capital-investment in cases where the coverage of planned investments may not be assured over the long term with internal financial resources./

This principle is reflected in the principles of capital-investment subsidy policy is established by the CSSR Government, which likewise assure another of the basic principles of the Set of Measures; the efficiency of resources

expended by the state budget and the adherence to the design parameters of construction projects. These principles are expressed in the basic conditions for the granting of investment subsidies. Exceeding the budgeted costs established in the aggregate budget of the project, failure to meet the completion schedule or the technical-economic indicators of the subsidized construction project will be consistently incorporated into the internal financial resources of the investor. Financial requirements which arise in this way will be financed from the development fund of the investor (exceptionally, in the absence of a development fund, from the capital-formation fund).

As has already been stated, investment subsidies are granted from the state budget, in exceptional cases, to branches established by the CSSR Government in accordance with the objectives and intentions of the state plan for investment projects financed from the capital-formation fund. Investment subsidies may not be granted for projects to be financed from the development fund. Basically, investment subsidies may be awarded to state economic and social organizations for budgetary plan investments, civil defense, military science and technology, for the construction of apprenticeship facilities, and also to state economic organizations whose relationship to the state budget is determined by the financial plan in line with CSSR Government Ordinance No 161/1980, Laws of the CSSR, invalid production cooperatives, and for investment by JZD and joint agricultural cooperative enterprises. Subsidies may be granted to other economic organizations, but only in branches established by the CSSR Government (at the present time, for instance, the fuel and energy branch).

In implementing the principles of subsidy policy, we must base our actions on the fact that the principles for granting subsidies establish conditions which the investor must meet in order to receive a subsidy from the state budget. These principles do not, however, establish the responsibility of the state to grant investors a subsidy in all cases, even when the established conditions have been fulfilled. There is no legal right to investment subsidies, and they are awarded based on the actual possibilities of the state budget. In view of this principle, it is necessary to consider investment subsidies as provisional up until the final technical-economic evaluation of the construction project (especially according to the decree concerning construction-project documentation). A subsidy will be definitely honored on the basis of the results of this evaluation and on the condition that all the conditions established at the time of its being awarded prior to the beginning of construction have not been met, the subsidy will not be honored, or will be reduced and the investor must return the amount provided to it from the state budget for the construction.

/The influence of the financial system and its instruments on the effectiveness of capital-asset replacement does not rest only in the area of investment financing. It has a very substantial influence especially on the utilization of capital-assets through application of the return on the capital-assets indicator, which is a binding indicator of the financial plan and a conditioning indicator for incentive-fund formation./

Greater effectiveness and efficiency in the area of capital-asset replacement is also assured with the assistance of certain penalty measures. Their application is supposed to lead to maximal efficiency and rationality in the utilization of foreign-currency resources together with a progressive determination of the design capacities of machinery and the quality of planned production, as factors making possible structural economic changes, the satisfaction of internal needs, and a more rapid adaptation of the economy in relation to foreign markets.

The effective utilization of imported technology means the elimination of ineffective demands for foreign machinery, the warehousing of imported technology and the stretching out, or putting off of assembly and integrative jobs.

The intention of the decree concerning fines for the delayed startup of imported machinery, accessories, equipment, transportation assets and investment units is to foster a speeding up of this process and the maximum utilization of modern technology. The decree is also designed to cause an increase in the rigorousness and responsibility of organizations and individual employees in the negotiation of requirements for machinery imports, and the definition of personal accountability for the preparation and implementation of imports. As a penalty measure it also has an influence on limiting the kinds of foreign-currency requests for which there have been neither construction preparations, nor arrangements made for deliveries of related materials, etc.

Fines are established for the delayed startup, or utilization, of imported machines. This applies to all state socialist organizations which have such a machine in their operative administration, meaning that they order a machine, sign documents that they have received it, depreciate it, etc. Indirectly, however, a fine can punish other organizations as well, whether they be cooperative, social, foreign, trade, or others, to the extent that through their obligations they are responsible for creating jointly the conditions for the timely installation and startup of foreign machinery at the workplace of the organization-investor and they fail to fulfill these obligations or disrupt them. In such instances, they are responsible, according to the commercial code, for damages that arise and share in the rectification of the damages which arose with the payment of a fine by the organization-investor.

Imported machines may in this country represent a component of a construction project, a component of a set of equipment, an independent capital-asset, or may be used for repairs through replacement, and in some cases it is a matter of a machine destined for the needs of the Czechoslovak scientific research base. Their acquisition may then be financed both according to Decree No 162/1980, Laws of the CSSR, concerning the financing of capital-asset replacement, and also according to Decree No 164/1980, concerning the financing of working capital.

The decree thus penalizes the delayed startup of all machinery for which an organization has freed up foreign-currency resources, even if this has been

through its supervisory central or other specific foreign-trade organizations. It is not critical whether these machines were procured abroad for foreign-currency credit, or whether the organization which has or will have the machine in its operation has been directly involved in contractual relations with a foreign-trade organization or with another organization through which it pushed through its request for the import of the machinery (for instance a coordinating project manager for imports, a higher supplier). The decree exempts from this fine only imported machinery which has been designated as reserve capital assets or as inventory earmarked for use after accidents. For this machinery, however, it is necessary to declare its purpose beforehand and to negotiate with this intention (for instance, in the annual procurement plan within the framework of foreign-currency regulation or in a request for the freeing up of foreign-currency coverage).

Implementation of Set of Measures in Area of Capital Asset Replacement

At present, an evaluation is being conducted of the first stage of the implementation of the Set of Measures or Improving the Planned Management System of the National Economy After 1980. This evaluation has indicated that in the area of investments a trend towards centralized financing is becoming generally evident, although decisions concerning investments are not always being centralized to the same extent. At enterprises, a capital formation fund is generally in existence, but it is often formed, in contradiction to the intentions of Decree No 162/1980, Laws of the CSSR, by allocations from the sectorial capital-formation fund according to the decision of the VHJ, while it should be formed by allocations from enterprise profits and depreciation. Regarding the development fund, most VHJ are proceeding according to the relevant regulation, i.e., an organization forms the development fund by a standard allocation from a share of depreciation and from profits. Likewise, the breakdown of parts of the planned formation of the development fund by subordinate enterprises is conducted by the VHJ in a differentiated manner according to the needs of the enterprises and in accordance with the intentions of the Set of Measures. There do exist, however, VHJ which have not established a standard allocation from profits for some enterprises, and which apply the standards for formation only for the VHJ development fund. Allocations to enterprise funds are thus realized, basically, only by transfers from the sectorial development fund, which reduces the khozraschet interest of enterprises in profits. Such an approach, which runs counter to the objectives outlined by the Set of Measures, should be an exception. For development-fund formation in excess of the standard, a centralized technique is predominately applied (allocations in excess of the standard are not distributed to the enterprises), which means that allocations to their development funds from quality-goods markups and from allocations from the fund for economic incentives for exports are as a rule not entered in their financial plans.

Applications of new financial regulations are influencing, in certain cases, problems which have been difficult to solve. In certain VHJ, the formulation is only now taking place of the management organization, of the general directorate in concern-type management, of the VHJ statutes, and of the system of organization and management of concern enterprises and specialized

organizations. The published rules for internal enterprise management, however, are being gradually deepened in most VHJ and the VHJ are preparing comprehensive aggregate rules.

/In spite of its short period of practical application, it is evident that the modification of the means of financing, and thereby of the planning process for modernization and reconditioning in connection with the carrying out of repairs on capital assets, has proved itself and expanded to a certain extent the possibilities for capital-asset replacement. Basically it may be said that the new measures are, to be sure, being implemented at a slower pace than expected, but that some of them are already in effect. An evaluation has also pointed to certain problems which must be dealt with from the viewpoint of the degree of centralization of management in individual VHJ, both in relation to the assurance of the khozraschet incentives and the accountability of the enterprises. These problems rest above all in an efficient degree of management centralization, both in its material aspects and in financial management, and further in its often uncoordinated and disjointed actions, in the extent of centralization and the forms of economic incentives in those areas left to the jurisdiction of the VHJ, and in the intensity of the influence of certain economic instruments.

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ADVANTAGES OF KHOZRASCHET WITHIN SET OF MEASURES DISCUSSED

Prague RUDE PRAVO in Czech 15 Jul 82 p 1

[Article by Eva Sadilkova: "What Does Khozraschet Bring"?]

[Text] Sfinx at Ceske Budejovice is our principal manufacturer of enamel and aluminum cooking utensils. The various colored enameled pots, casseroles, pans, and kettles with the enamel finish are known to the domestic consumers and customers in many foreign countries. In addition to the cooking utensils, Sfinx produces palets, metal containers and industrial labels. The total value of goods produced annually amounts to Kcs 543 million at wholesale prices. Naturally, innovations are primarily carried out in kitchen utensils. On the average approximately one-third of the assortment is revised every year.

As the achieved results indicate, the workers here were able to perform work according to the more strict principles of the "Set of Measures" already in the first year of the Seventh Five-Year Plan. In 1981, the adjusted value added was met 101 percent, profit 102.3 percent, return on production assets 102.1 percent--all this despite the 2.1 percent reduction of raw and industrial materials consumption in comparison with 1980.

Khozraschet in Plants

The workers at Sfinx applied the khozraschet methods in their work already in the previous seven-year plan and even before that. "Nevertheless, the Set of Measures provided also us with the stimulus to improve all our work," we learned from Jan Frimmel, deputy economic manager. "Khozraschet in the plants was extended to include planning and computation of adjusted value added and of return on production assets. We are now making a survey on the utilization of capital assets. The collectives in the plants are interested both in increasing the output and reducing material costs as well as in bigger return on production assets, while effectively utilizing all capital assets and economically utilizing raw materials."

"The results which we achieved last year," adds Jiri Drvota, head of the labor economics, "became the basis for adopting a counterplan for this year. It is anticipated that its fulfillment will increase the adjusted value added

"by Kcs 1.8 million this year. For the enterprise this means a 1.1 percent wage increase which certainly is not negligible."

Management by Centers

The basis of all operations at Sfinx is management of individual centers which was introduced here already in 1966. The consistently applied khozraschet whose integral part naturally are the regular reviews of all-- material and efficiency--norms and also checks on the observation of all principles has brought good results. For example production overhead per Kcs 100 of goods manufactured declined from Kcs 23.01 in 1979 to Kcs 21.02 last year. Administrative overhead declined from Kcs 10.30 to Kcs 9.78.

Sfinx thoroughly reviewed the material norms last year and on the basis of this review is now reexamining all technological procedures and efficiency norms. They also want to reduce the number of supervisors and to assign them to piece work. Closely related to the review of technologies are the measures designed to improve the management of individual production operations. They have already observed similar principles before. During the previous five-year plan for example Sfinx began to experience problems with the number of shifts worked: it declined. They therefore worked out a long-term program which defined with more precision preferential wages for workers engaged in multishift operations. The program is still in effect. What was achieved? While the number of shifts worked in Sfinx was 1.2 in 1977, it was almost 1.4 last year.

500 More Stampings

The mainstay of the Ceske Budejovice plant of Sfinx enterprise is the progress press. It is an impressive piece of equipment which produces a considerable part of semifinished products, which after further processing change into beautiful and purposeful kitchen utensils. The stamping press works continuously. Working in shifts is a matter of course for its three crews. "It seemed that the unchangeable average output of the press was 9,700 semifinished products in 24 hours, that is in three shifts," says Jan Bartyzal, foreman in the stamping shop. "However, new, more efficient equipment was installed in the enameling shop at the beginning of last year which could handle more stampings. It was necessary to increase the daily output of the press to at least 10,200 stampings. And so we checked, examined, verified and reverified in order to determine, where was some time lost."

"It was not actually that simple" says in this connection Josef Ambruzek, presser and fitter. "The shortening of the operation time could be achieved only by the replacement of press parts which took as long as 12 hours. The operation speed of the machine cannot be increased, its impulses are regular and preset. During the first months of last year, the enterprise management presented three press crews a proposal, to give them more incentives in the work performed. It was left up to them to decide, how they could produce more stampings and where time could be saved. If they succeed and make 10,200 stampings in three shifts, every member of the crews operating the press will receive, in addition to the standard efficiency premium, also an

"incentive premium. This should amount to Kcs 3.0 for each hour worked. And if the average output exceeds 10,500, they will receive another Kcs 5.0 for every hour worked. This indeed is an attractive incentive proposal. On the other hand, if we do not achieve the pledged output, a proportionate amount will be deducted from wages."

Maintenance Carried Out in Free Time

"We began to hold regular production meetings at which we discussed how to attack the problem," we learned from Vladislav Sindelar, crane operator, who has worked at Sfinx for 37 years." And believe me, it turned out that many things could be improved. For example, we ordered substitute tools so that the stamping press would not have to remain idle in case of a breakdown and not have to wait until the necessary mold is made. All crews see to it that maintenance is done on time and regularly. Most of the major repairs of the stamping press are done on free days, and then the best maintenance men from the entire plant help us."

"The team around Paust as we nickname the press must be well-matched and really is," joins in Jan Bartyzal. "Every member of the crew knows the work performed by the other to be able to replace him. Thus, the toolmaker is also a repairman, a crane operator also press operator and so on. It takes crews only 4 to 8 hours to replace the tools."

The progress press has already been producing more than 10,000 semifinished products during a 24-hour period for a year. All crews can handle the job very well. Nevertheless, not each of them always succeeded in earning the appropriate incentive premium. In other words, they also, as we learned from them, had to improve further.

Fewer Defective Products

All departments of Sfinx are mutually dependent on the results achieved by the others and on the quantity and quality of products. Control is strict, but it brought about, for example, the reduction of defective products from 0.93 percent in 1980 to 0.75 percent in 1981. There was also a significant decline in the number of complaints from the customers. The proportion of Sfinx products of high technical standard is on the increase. Their value amounted to Kcs 41.7 million in 1980, Kcs 50.9 million in 1981 and should reach Kcs 65 million this year.

All this is the result of the consistent application of khozraschet methods of management. The prompt introduction of rationalization measures is also part of them. The reduction of the labor force by 50, the reduction of many kW of energy consumption and many tons of material resulted in savings of more than Kcs 6 million. The most important measure was the enameling line in the Vrato department which was constructed by the collective headed by the foreman Rudolf Kubicek with the help of the designer Eng Eduard Krolupper. Among other improvement were the enameling lines, kettle stampings and kettle covers which were installed in the main plant at Ceske Budejovice.

The workers at Sfinx in Ceske Budejovice have realized that the solution of many problems and the possibilities of better and bigger results of all work lie primarily in good management, implementation of all necessary measures and in systematic control. They observe these principles which are the key indicators of khzoraschet.

10501

CSO: 2400/332

WAGES, RETURN ON PRODUCTION ASSETS DISCUSSED

Prague PRACE A MZDA in Czech No 7, 1982 pp 19-23

[Article by Eng Milan Ptacek, SBCS [Czechoslovak State Bank], Main Office for the CSR, Prague: "Return on Production Assets and Wages"]

[Text] Return on production assets (RVF) has been one of the key indicators of the management system since 1 January 1981. In a synthetic form, it expresses the efficiency of the reproduction process. As the share of profit in the volume of capital assets and inventories, it provides information on the efficiency and utilization of production assets in the reproduction process, on the trend in expenditures on customary economic activity. This indicator was specified in the "Set of Measures" as one of the key indicators for regulation of wages payable. The so-called incentive wage component, that is, approximately 15-20 percent of the total amount of wages, is linked to it. It is also one of the indicators for the routine evaluation of plan fulfillment and one of the general criteria of effective utilization of bank credit.

The significance and effect of RVF on enterprise financial incentives was verified by SBCS through the analysis of basic factors in the RVF fulfillment and its effect on the amount of potentially payable wages at the CSR Ministry of Industry. It supplemented the total data by the results of analysis of selected VHLJ [economic production units] and enterprises of the CSR Ministry of Industry and Construction (9 VHLJ and 24 enterprises). The analysis was based on the results as of 30 September 1981.

Effect of RVF on Wages Payable

The organizations of industry directed by the CSR Government (henceforth: "organizations") achieved a substantially more favorable RVF as of the end of the third quarter of 1981 than not only the operations plan, but also the annual plan had anticipated. The RVF operations plan to which the regulation of the incentive wage component is linked was surpassed by 6.9 percent and the annual plan by 3.4 percent.

Because of the surpassing of the RVF plan, the organization could theoretically increase (through the recalculation of the incentive component) the planned volume of wages payable by Kcs 65.7 million at the end of the

third quarter. In fact, however, the plan of the incentive wage component was increased by only Kcs 40.4 million because some VHJ, despite surpassing the RVF plan, failed to comply with the indicators on which the calculation was based.

The actual increase in the wages payable plan resulting from the surpassing of planned RVF as of 30 September 1981 in the sectors managed by the CSR Government is clear from the following summary:

Difference from the plan (in percent)

		<u>Effect of surpassing of RVF on the increase in planned volume</u>	
	<u>Surpassing of RVF</u>	<u>of incentive component</u>	<u>wages payable, total</u>
CSR Ministry of Industry	+6,4	+1,6	+0,3
including:			
chemical industry	+7,8	+3,1	+0,6
light industry	+6,4	+1,5	+0,3
woodworking industry	+4,2	+0,6	+0,1
Building materials industry	+6,2	+1,2	+0,2

Only VHJ of the chemical industry made full use of the possibility given by the rules regulating the increase in the amount of the incentive wage component. VHJ in other sector deprived themselves of this partial increase because they failed to comply with the qualifying indicators. The incentive wage component was only insignificantly (0.1 percent) increased in the construction organizations which use the RVF indicator or its modified form for wage regulation.

The fulfillment of the RVF plan considerably varied in the group surveyed both between VHJ and between enterprises of the same VHJ (from -22.6 percent to +59.6 percent).

The Union for Chemical and Metallurgical Production in Unichem VHJ Pardubice, for example, exceeded RVF by 6.8 percent and Urx Plants by 2.4 percent, while Paints and Lacquers underfulfilled the plan 5.3 percent. In the Paper and Wood Pulp Industry VHJ, the Krkonose Paper Mills surpassed the RVF plan by 7.1 percent, South Bohemian Paper Mills by 2.8 percent, while the North Bohemian Paper Mills registered a big underfulfillment (22.6 percent).

Fully 25 percent of the enterprises surveyed did not fulfill the RVF plan.

The different degree of the RVF plan fulfillment also exerted a varying influence on wages payable. In accordance with the rules of wage regulation,

the effect of sanctions imposed for failure to fulfill the RVF plan are much more intensive than the advantages resulting from surpassing the plan.

The incentive wage component was increased by Kcs 14.1 million for exceeding the RVF plan in the group of VHJ surveyed. Its recalculation was not permitted in the Cotton Industry and Industrial Construction Projects Brno VHJ. Due to the noncompliance with the qualifying indicators, these VHJ thus forfeited Kcs 5.7 million in the potential wages payable increase.

With the exception of Jablonec Custom Jewelry Industry, the increase in the wages payable for exceeding RVF did not represent a significant amount. In the sectors in which the conditions for preferential pricing due to high quality and fashionable design exist, its effect was smaller than the effect of increases resulting from preferential pricing.

In the CSR industry sector, for example, the incentive wage component increase for exceeding RVF amounted to Kcs 40.4 million (0.3 percent of the planned volume of wages payable), while the additional increases resulting from preferential pricing were approximately twice that amount (0.6 percent of the plan). The preferential pricing was applied because of the high quality of products and services in the chemical and woodworking industries, and because of the fashionable innovations and luxury products in light industry. The preferential pricing above the plan increase the RVF fulfillment at the same time.

In the Cotton Industry VHJ, the increase in the wages payable plan due to the surpassing of RVF amounted to Kcs 540,000 (including Kcs 60,000 due to the preferential pricing above the plan), while the increase due to the fashionable and luxury products and high quality amounted to Kcs 9,904,000. Because the modified RVF was surpassed by 3.6 percent in the Cement and Lime Works VHJ, the plan of wages payable was increased Kcs 639,000 and the item addable for preferential pricing of products in the first-quality class amounted to Kcs 3,580,000.

In the set of selected enterprises, the reduction of the incentive wage component for the nonfulfillment of RVF amounted to Kcs 34.4 million in 25 percent of enterprises, while the wage increases for surpassing RVF by 75 percent of enterprises amounted to Kcs 7.2 million only (of this amount Kcs 1.7 million was realized because of the noncompliance with the qualifying indicators).

This confirms the obviously restrictive effect of the nonfulfillment of the RVF plan in comparison with the advantages resulting from surpassing it.

In order to make financial incentives for quality production more effective, apart from other measures, the actual RVF rate used for regulation of wages payable is reduced by the losses caused by inferior production. Our analysis has revealed that according to the present method the effect of losses caused by inferior production on RVF and the incentive wage component is negligible in most organizations and is not proportionate to the complexity of its calculation.

The losses caused by inferior production did not affect RVF at all in 66 percent of selected VHI and 50 percent of enterprises, while they reduced RVF on the average by 0.1 percent in others. Their effect was more noticeable at Mostlana Brno where the losses caused by inferior production reduced RVF by 0.6 percent. Even this effect was rather insignificant since the plan was surpassed 12.3 percent.

From this standpoint, the losses caused by inferior production exert greater influence only if the RVF plan is substantially unfulfilled.

Factors Affecting RVF Plan Fulfillment

In the system of financial incentives, the RVF indicator affects both the reduction of costs of the reproduction process and more effective utilization of invested funds.

In accordance with the specified principles, RVF is calculated as the share in profit (excluding the influence of foreign trade and extra incomes) from the average value of production assets (that is, capital assets at the purchase price and inventories; in construction organizations, also the facilities on the building site). The average values of production assets are computed at the beginning of the year and on the last day of the period in question. In order to stimulate interest in putting capacities into operation on time, even those capacities are included in the capital assets which were not completed within the specified deadline.

The analysis of factors affecting the RVF plan fulfillment made it clear that the development of RVF is much more affected by deviations from the profit indicator than from the indicator of production assets.

In the industry supervised by the CSR Government, a 1 percent increase in RVF as of 30 September 1981 would necessitate increasing profit by Kcs 176 million. In view of the Kcs 984 million surplus plan as of that date, this was not too difficult a task. An identical RVF increase could be achieved by reducing production assets by Kcs 3 billion, that is 1.4 percent of fixed assets or 5.3 percent of inventories. In fact, the average value of production assets was Kcs 1.6 billion (0.6 percent) below the operations plan--of capital assets Kcs 1.2 billion (0.5 percent) and inventories Kcs 0.4 billion (0.7 percent).

It is, therefore, easier for the enterprise sphere to fulfill the RVF plan through profit. The surplus profit in 1981 resulted primarily from the relative reduction of material and other expenditures, from service of immaterial nature and partly also from lower wage costs output including output above the plan. On the other hand, these results were depreciated by the higher financial costs.

Yet, the results of the fulfillment of RVF operations plans during the year as well as the positive effect of reduction of costs above the plan were relatively more favorable than by the end of the year. The reason for it frequently is the more favorable detailing of the plan in the course of the year.

Thus in the CSR industrial sector, for example, which is not of a seasonal nature the RVF plan last year was surpassed 10.5 percent in the first quarter, 8.6 percent in the first half, 6.4 percent in the first three quarters, but only 2.9 percent at the end of the year.

The overvaluation of plans in the course of the year stems from the factors affecting the RVF plan fulfillment as of 30 September and at the end of 1981 as is clear from the following table:

Difference in points

<u>CSR Ministry of Industry</u>	<u>In comparison with the plan</u>	
	<u>as of 30 Sept. 1981</u>	<u>for 1981</u>
Total RVF increase	+0,53	+0,20
including influence of:		
utilization of capital assets	+0,07	+0,07
utilization of inventories	+0,02	-0,06
surplus profit from relative		
reduction of costs	+0,44	+0,21
including: material	+0,35	+0,21
wage	+0,12	+0,04
financial	-0,08	-0,08

Positive (+), negative (-)

The surpassing of planned RVF as of 30 September 1981 was affected 83 percent by the relative reduction of costs, primarily material costs, and only 17 percent by the more effective utilization of capital assets and inventories. By the end of 1981, the utilization of inventories below the plan neutralized the influence of capital assets and RVF was surpassed exclusively due to the reduction of material costs which, however, amounted to approximately 50 percent in comparison with the plan fulfillment as of 30 September. Advantages resulting from the detailing of plans during the year or uneven distribution of tasks in individual quarters leads to the lower stability of economic plans and thus renders the RVF indicator in the system of wage regulation less effective. Several adjustments were made in most enterprises surveyed by lowering the plan targets in the fourth quarter.

The results of the analysis of factors affecting the RVF plan fulfillment by the selected VHI and enterprises as of 30 September 1981 and the findings of the bank branches financing them may be summed up as follows:

-- with a few exceptions, surpassing or failing to fulfill the RVF plan was affected by surpassing or failing to fulfill the profit plan (excluding the influence of foreign trade and extra incomes). Higher profits and lower proportion of production costs resulted in a number of instances from preferential pricing above the plan because of higher quality and fashionable and luxury products.

In the Wool Industry VHJ, for example, the preferential pricing above the plan (primarily applying to the fashionable and luxury products) amounted approximately to Kcs 0.5 billion, that is 4.5 percent of profit above the plan;

-- the effect of RVF indicator on the management of capital assets was generally small.

In the group of selected organizations the planned volume of capital assets was exceeded by 10 enterprises as of 30 September 1981 (more significantly by four of them: Union for Chemical and Metallurgical Production and Jitex by 1.9 percent, Highway and Railroad Construction by 0.8 percent, North Bohemian Brick Factories by 4.8 percent) and by one VHJ (Paper and Wood Pulp Industry by 1.1 percent). Only the North Bohemian Brick Factories did not fulfill the RVF plan because of the higher volume of capital assets. In all others it was offset by the reduction of material cost or higher outputs (Jitex).

The improvement of capital assets in some enterprises was due to the failure to fulfill the capital-investment plan (insofar as they did not include the projects unfinished within the specified deadline in the capital assets). In most instances, capacities not put into operation on time were taken into account only when RVF was calculated as of 31 December 1981. The RVF fulfillment was thus more favorable during the year.

This procedure was noticed, for example, in Unichem VHJ, where the Union for Chemical and Metallurgical Production increased RVF by 1.7 percent. The Urz Plants reported a 0.3 percent reduction in the volume of capital assets and a 1.4 percent increase in output.

-- in its present form, the RVF indicator does not stimulate the economic sphere to the more effective utilization of inventories. The primary reason for this is the small proportion of inventories in the total volume of production assets and thus also the small weight of inventories in the RVF formula. For this reason, fluctuations in inventories do not substantially affect the RVF level and the negative effect of bigger inventories can be canceled by profit above the plan.

For this reason, the surpassing of the planned volume of inventories by the selected organizations only exceptionally resulted in failure to fulfill the RVF plan.

The planned inventory volumes were exceeded as of 30 September 1981 by 10 enterprises and 5 VHJ--more significantly in approximately 50 percent of instances. The Moravian Fireclay and Schistous Clay Plants did so by 9.6 percent, but their RVF plan fulfillment fell only 0.7 percent short of the goal. The Candelabras Kamenicky Senov enterprise exceeded the inventory volume by 8.1 percent, but because of its participation in the experiment designed to increase income from foreign trade it increased its RVF by 59.4 percent. The Wool Industry VHJ exceeded its planned inventory volume by 4.3 percent and Cement and Lime Plants VHJ by 6.9 percent. Nevertheless both VHJ achieved more favorable RVF than anticipated by the plan.

The interest in inventory control through RVF could be substantially increased by the calculation of average inventory volume on the basis of monthly records instead of the present method of calculation based on inventory volume at the beginning and end of the period. The calculation based on the average of individual periods would thus also record the fluctuations within the period surveyed and would reduce RVF more noticeably. On the other hand, the calculation would be more time- and labor-consuming and would require objective planning of justified fluctuations during the year.

In the CSR industrial sector, for example, the average inventory volume as of 30 September, computed on the basis of monthly records, was higher by Kcs 0.5 billion (1.4 percent) than the average computed on the basis of the records at the beginning and end of the period. Yet, it would reduce the RVF level by only 0.2 percent. For the Cotton Industry VHJ, for example, the inventory volume calculated on the basis of monthly records would reduce RVF by 1.7 percent and wages payable by Kcs 1 million. In the Furrier and Fur Garment Industry VHJ and RVF indicator would register a 1.0 percent decline and reduce wages payable by Kcs 306,000. In view of surpassing the RVF plan by 0.66 points and reduction of wages payable from the overall limit of Kcs 13.3 million, VHJ would not feel the application of stricter criteria at all.

To achieve higher RVF, construction VHJ and enterprises make use of facilities installed in the building site (they are included in production assets) which are overvalued in the plans.

Due to the changes in the accounting and reporting method, only finished projects can be included in the facilities on the construction site. This may lead to the situation that the enterprises will not transfer the projects finished on time to the account of the construction site, and by failure to fulfill the plan of their completion can improve the RVF indicator and cancel the unfavorable results in inventories and capital assets.

The investigations and findings of the bank confirmed the validity of advantages of counterplanning according to the general rules. At the same time, the analyses of RVF pointed to some aspects of evaluation of the RVF plan fulfillment. They revealed for example that it is not enough to be satisfied with the general evaluation of this synthetic indicator, but that its economically satisfactory fulfillment must be analyzed both during the formulation of the plan and its routine evaluation. The bank will also help achieve this goal by its analyses in the future and will link granting of credits to compliance with the factors affecting RVF.

10501

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GREATER MANPOWER MOBILITY NOTED

Budapest NEPSZABADSAG in Hungarian 14 Jul 82 p 10

[Excerpts from a study by Mrs Sandor Berenyi of the National Wage and Labor Office, published in MUNKAUGYI SZEMLE [Labor Review]: "Manpower Mobility"]

[Text] After a decline seen in the previous year, manpower mobility increased again in 1981. The factors influencing the increase in manpower mobility were: elimination of mandatory referrals and lifting the ban on help-wanted advertising; eliminating the 3-year minimum for those in the first jobs of their careers; creation of the new business organizations—primarily the units operated under contract; increase in the number of people doing independent activity, implementation of the resolution by the Council of Ministers concerning the decrease of nonphysical employment (in the case of trusts and enterprise headquarters), as well as the reorganizations implemented in connection with modernizing the national administration, and the increase in the number of people employed by the auxiliary and side business branches of cooperatives. One important change is that employers place higher requirements on the quality of manpower. This is proven by the fact that undisciplined employees find it more and more difficult to get hired. More and more enterprises are refusing to hire those who frequently change jobs, generally even if they need the manpower.

The manpower structure corresponding to the national economy's goals, or approximating it, became reality primarily on the basis of initiatives taken by the individual employees, and through demographic exchange (natural manpower mobility). The planned release of manpower in harmony with the change (decrease) of tasks, and its regrouping among the enterprises has still not become a significant factor in manpower mobility.

The enterprises made efforts to ensure the manpower needed to perform the new jobs resulting from the modification of their production structures primarily by redeploying their existing employees, by retraining them if necessary, and by their advanced training, rather than from outside sources.

In earlier years, changing employment was significantly more frequent among trained workers and helpers than among journeymen. But recently--primarily in industry and in the construction industry--the ratio of journeymen increased among those resigning, and many of them are accepting jobs in

agriculture. The reason is that the spread of using modern technology here, increased mechanization and use of chemicals, and the expansion of those--in many cases auxiliary--activities whose purpose is to further process the products, and the production of packaging materials and spare parts for this require more and more industrial and construction industrial journeymen.

When they change jobs, in many cases the primary viewpoint is not the higher wage that can be had, but rather that a significant number of people leaving industry and the construction industry find jobs closer to home, thus avoiding the need to commute and work far from home (workers are increasingly reluctant to do this). Besides this, the nature of agricultural work and its working conditions have also changed, the ratio of mechanized jobs requiring trade training has increased, and it is also attractive to the young people. If they can find suitable work near home, they prefer to accept this job rather than commute.

In the interest of promoting more rational manpower management--while conforming to the changing manpower situation--apart from certain exceptions, the mandatory use of referrals was eliminated in 1981 (the councils may still mandate the use of referrals to fill certain job categories in the future, for example, in the interest of protecting the handicapped). Both employers and employees welcomed this change. Under its effect the administrative work load of referral organs decreased greatly (to less than 50 percent of the 1980 figure). This results from the fact that many people changing jobs, and many of those joining the work force for the first time, came to the referral services in the past only because they were required to do so.

8584

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CHANGING GOALS OF PETROLEUM INDUSTRY OUTLINED

Budapest NEPSZABADSAG in Hungarian 14 Jul 82 p 10

[Article by Dr Istvan Sokorai, deputy director general of Danubian Petroleum Industrial Enterprise, in charge of technology: "New Tasks for Our Petroleum Industry"]

[Text] It is obvious today to economic experts that together with the 1970's the era of cheap petroleum and cheap energy has permanently ended. The process that began with sharp price increases in 1973 is called an oil crisis by many. But the world economic changes affected not only petroleum but also all areas of economic life. Yet, we are justified in attaching these economic phenomena to petroleum because, of the most important raw materials and energy sources, the price of this one changed the most.

In the era of cheap petroleum, we made vigorous efforts to modernize our energy structure, which until the mid-1970's meant that we systematically increased the ratio of oil in consumption, while coal was cut back. The development of domestic motorization, the mass spread of automobiles, and introduction of mechanization and of industry-type, energy-insentive production systems into agriculture took place during this time period. Together with the rise in the standard of living, the population's demand for modern and comfortable heating fuels that can be used with a high degree of efficiency, the use of peebie [propane-butane] gas heating oil increased.

The use of heating oil and electrical energy produced from heating oil played a significant role in the vigorous increase in the productivity of industrial work. The dieselization program promoted the efficiency of mass transportation and freight transportation. And last but not least, it must be mentioned that our petroleum chemistry and plastics industries were also built on the basis of petroleum. Today a whole series of plant-protection chemicals, plastics, pharmaceuticals derived from petroleum serve the producers and the population.

By the middle of the last decade, the Hungarian petroleum industry was built up well, the 360 kgs of petroleum product consumption per person in 1965 increased to 1,150 kgs in 1978. Even though we did not break into the line of world leaders with this, we occupied a rather elegant position in the midfield.

Reevaluation of Modernity

We can produce not quite one-fifth of our petroleum needs from our domestic fields. Imports, therefore, are a must in our consumption. Before the price explosion, several tons of oil could be purchased for 1 ton of wheat, but today we must pay nearly 2 tons of wheat for 1 ton of oil. This changed world market price system also caused us losses because we were unable to increase the efficiency of our use of oil in our economy at a rate corresponding to the price increase. But the developed capitalist countries were not able to do it, either.

Modernization of the energy structure is on the agenda again today, but with a significantly different content. It is more correct to talk about energy management and a new energy policy rather than about modernizing the energy structure, because our tasks in this area are more difficult and more complicated than just modifying the ration of energy sources.

Nowadays, the price of a unit quantity of energy is highest on the world market if, among the energy sources, it is in the form of petroleum. In the present situation of our national economy, it is not permissible to increase imports of the most expensive energy source—even though undoubtedly it is the most convenient one to use—if it involves economic losses. On the contrary, it is a direct national economic interest to use other energy sources instead of oil products in all areas of consumption where this can be done advantageously.

Successful Substitution

We have often read and heard that clever craftsmen convert their cars to operate on gas, electric power, hydrogen or alcohol. Well-known institutions and researchers publish releases on, for example, heating by solar batteries, coal-based fuel production, biogas utilization and other attempts. But the practical significance of these is still quite small today in the energy supply, only their scientific value points toward the future.

The present realistic opportunities for successfully replacing petroleum products are quite different today. Converting the millions of automobiles and hundreds of thousands of trucks and buses to other fuels and organizing the new fuel supply is an unsolvable task for all national economies. It is also extremely difficult to convert the large petrochemical plants and plastic factories to a coal or natural gas basis, while in air transportation there is no suitable material yet today to replace the petroleum products.

In the developed industrial countries and also in this country, several million tons of heating oil are burned in power plants to produce electrical energy, and in industrial furnaces for the purpose of supplying heat. But these high-consumption industrial facilities could also be heated by coal or natural gas, and electrical energy can also be produced in nuclear power plants. If we use these types of energy, large quantities of heating oil will be saved which can serve as the raw material for gasoline and diesel oil production and even for petrochemical products. Some industrial furnaces will

be converted to use natural gas, and some to use domestic coal, obtained from the implementation of the Eocene program. By the end of the Sixth Five-Year Plan, significant quantities of heating oil will be freed also in this area.

Catalytic Cracking

The experts have known for a long time that light products are produced from the heavier parts of petroleum when it is heated with the exclusion of air. In the plain language, if the viscous, thick, black heating oil is heated to a sufficiently high temperature, then--among other things--gasoline and diesel fuel are made from it, and a bitumen-like material remains behind as residue. The job of the petroleum industry is to produce fuels from the heating oil saved in the power plants and industrial furnaces.

Special materials--catalysts--are used in the modern cracking processes (the decomposition performed at high temperatures is called cracking) to guide and promote the thermal decomposition. The appropriately prepared heating oil is mixed with the hot catalyst, and breaking up of the molecules of the base material takes place at temperatures around 700 degrees Celcius. This results in production of about 15 percent crack gas excellently suited for chemical processing, 45 percent gasoline and 20 percent diesel fuel. Coke, which deposits on the catalyst during the process, is removed by continuous burning. Heavy heating oil remains behind during preparation of the raw material for cracking and during the cracking itself.

After the proper treatment and purification, the light products formed in the cracking reactor can be used as motor fuels. The modern cracking plant is extremely energy-efficient because it uses the energy derived from burning off the coke deposited on the catalyst's surface during the cracking, to supply the heat requirements of the process.

This country's first catalytic cracking plant is being built in Szazhalombatta for the Danubian Petroleum Industrial Enterprise. A French engineering firm designed the plant with the most advanced technologies, and French firms will also supply its main equipment. This plant is the largest investment of our chemical industry in the Sixth Five-Year Plan. A dozen domestic enterprises are also cooperating in creating it. The 6.5 billion-forint investment is financed by bank loans, from the credit fund for improving the balance of payments. In spite of its high cost, the profitability of the investment is outstanding, and it will pay for itself in a short time.

The short construction time, unusual in this country's experience, presents special problems. By complying with the construction time planned for 42 months, the plant's trial run will take place in July 1984. It is noteworthy that the capitalist firms that submitted bids would not have accepted a shorter deadline than this even if we bought the entire plant from them on a "turnkey" basis.

The domestic industry's participation in the investment is also significant. Items delivered to us from abroad do not even amount to one-half of the costs. Our construction and installation enterprises contracted for this big job

according to new requirements. In order to meet the deadline, construction work must go on every day--that is, even on Saturdays and Sundays--and in addition, even in two shifts in the advanced stages of the investment. The experience gained in building the nuclear power plant can be put to good use in developing the working system.

The catalytic cracking plant will process 1 million tons of heating oil per year. It will produce as much gasoline from this as can now be obtained from about 2.5 million tons of petroleum. This amount of gasoline covers the annual consumption of 700,000 to 800,000 passenger cars. In addition to this, so much heating oil will be generated that it will be sufficient to supply the annual requirements of 200,000 to 300,000 families with oil heat. The amount of liquified gases produced in the cracking plant is not negligible either. Part of this is high purity propylene which can be used to make the well-known plastic, polypropylene. Another part of it can be made available to the public as industrial heating gas or as PB [propylene-butylene] gas, but with proper processing it can also be converted to gasoline.

The oil crisis presented our young domestic oil industry with a new situation. The decreased processing causes significant economic difficulties. But new ways which ensure radical modernization of the product structure of this industrial branch were discovered. Implementation of the oil industry's development goals will, over the long range, help the smooth supply and moderation of the import burden.

8584

CSO: 2500/332

COST ALLOWANCE SYSTEM TO EASE CONTROL OF RETAIL OUTLETS

Budapest MAGYAR HIRLAP in Hungarian 5 Aug 82 p 7

[Article by Lenke Elek: "Pay Out of Your Pocket. On the Cost Allowance System--How Can a Business Be Profitable"?]

[Excerpts] Our goal is to simplify the administration of businesses operating on a tight profit margin and of our enterprise centers, to increase management responsibility and to prevent unjustified expenditures.

With Less Bureaucracy

The main idea behind this system is not to increase material incentives, but rather to reduce bureaucracy and to establish an optimal level of expenditures. Under the cost allowance system someone from the staff of the business--usually its owner--receives a lump sum at the beginning of the month. This lump sum is a kind of business activity-related monetary compensation covering miscellaneous general costs which is given to the representative based on a separate agreement and without obligation to show proof of payment.

A business in this case means a restaurant, shop, warehouse, business quarters or store department employing not more than 15 people. The term separate agreement implies that the use of this allowance system is not mandatory, and that depending on the joint decision by the collective and the manager of the business, they may sign an agreement with the enterprise for 1 to 5 years. What kind of costs would fall under this? The basic principle is that this would apply to costs which the employees of the business have control over, in other words, which involves care, effective work and rational savings on their part. These expenditures may include material costs, such as public utility fees, fuel, certain packaging materials, cleaning and shipping costs, mail, telephone, telex, travel, plumbing repairs, lock repairs, smaller renovations--calcimine and paint--replacing more common spare parts and expendable supplies including glasses, plates and tableware.

Not included among these costs are wages, rates and taxes, labor and property safety expenses, devaluation deductions, maintenance work in excess of 1,000 forints in the case of expendable supplies and over 5,000 forints per item

in the case of fixed assets, standardized deficits, losses due to waste, risk funds and assumed central costs.

The allowance, or monthly lump sum may be based on the itemized factual figures of previous years.

Without Receipt

How does all this look in practice? Until now if someone needed a box of VIM scouring powder to clean up, he had to ask the store for a receipt. If someone was sent to the store in the evening with the daily earnings, even his one forint round-trip train ticket had to be attached to the account statement. Now they will not need a receipt for everything; the most significant change in this regard is the phrase, "without the obligation to show proof of payment." In other words, they leave it up to the manager how he spends his lump sum, or what he chooses to pay greater attention to. Let us say, for example, that he always turns off the lights in his office, allows less private conversations by his employees, but likes to change the tablecloths more frequently. Whatever he saves from his lump sum he may keep. However, if he exceeds that amount he must cover the difference from his own pocket.

In this case saving is not in the interest of the enterprise, but in the interest of the person entrusted with managing the money. The money he saves he may use anyway he pleases. If he feels it is the thing to do, he might even give a bonus to the dishwasher who broke the least amount of glasses or plates.

What if this economizing is carried too far? Are we going to have cold restaurants, even less frequent tablecloth changes--see cleaning fees--will we have to put up with half-lit dining rooms where we cannot even see the color of our coffee?—I may ask.

The cost allowance system must not lead to shortchanging the consumer, or to a reduction in the culture of the surroundings; hygienic requirements and standards must be adhered to just as strictly as before. Those in charge must see to this.

In order to ensure compliance, the new policy has established certain norms, such as the temperature level that must be maintained in dining areas and coat-check rooms. What is more, from now on greater attention will have to be paid to service, to adherence to professional requirements, and last but not least, to providing normal working conditions for the employees.

Let us say, that at the beginning of the month the manager receives 10,000 forints, 3,000 of this for miscellaneous expenses and 7,000 to cover public utility fees. But the bill is not due until the end of the month or the beginning of the following month. Can he use those 7,000 forints without interest?

Yes, but it is not practical. The proper methods must develop in practice. It would seem more sensible to use this cost allowance to cover expenses pertaining directly to the business and to make the costs covered by the enterprise a part of material incentives. This would seem expedient all the more since the firm would also have an interest in savings-minded management because the premium would not be nearly so much as the full amount saved.

If Operating At a Loss

What if the business is operating at a loss? For there are also many examples of these, yet sometimes for objective reasons—such as inadequate clientele and slow customer traffice—the shop cannot be closed down because of supply policy consideration.

In the case of businesses operating at a loss the manager must be made interested in cutting his losses. Similar incentives could be set up for the managers of businesses which produce only marginal results, but in their case the primary stress should not be on premiums tied to turnover.

Also these are merely formulas, and their viability can only be tested in practice. But in any case, it is a good thing that henceforth rentability will appeal not only to contractors, renters of businesses and private operators, but also to employees of shops and restaurants operating on tight profit margins.

9379

CSO: 2500/348

NEW CLASSIFICATION OF ENTERPRISES, COOPERATIVES IN HUNGARY

Budapest MAGYAR HIRLAP in Hungarian 5 Aug 82 p 5

[Interview with Laszlo Harsanyi, Head of Department, KSH (Central Statistical Office) by Andras Banki: "Small Businesses in Place. What Should I Call You"?]

[Text] Social policy and economic management cannot function without a statistical and computerized registry of economic organizations. This registry provides information about the number and--in terms of categories based on various criteria--quality composition of economic organizations. Thus, for example, about their branch and control status, sphere of activity and regional location.

A New Registry

Effective 1 January 1982, the president of the Central Statistical Office announced the introduction of a new classification system for economic organizations to be based on those organizations' form of ownership and management, while simultaneously rescinding the earlier "sector codes" used to numerically codify forms of ownership and organization.--What was the reason for this change?--I asked Laszlo Harsanyi, head of department of the KSH.

[Answer] There were two basic reasons for introducing this new registration system: one had to do with methodological problems and the other with the changes that have occurred in the organizational system of our national economy. Our economic organizations outgrew the sector codes, we ran out of numerical codes and on occasions they were already getting mixed up, making differentiation difficult if not impossible. The nomenclature itself was, therefore, due for a review. This process was accelerated and diverted in a new direction with the introduction of new enterprise and business forms. There was good reason, therefore, for retaining differentiation according to forms of ownership, but our classification system had to be refined to better reflect reality. At the same time--and this was an important change--differentiation based on organizational forms was replaced by differentiation according to economic forms which was very important from the point of view of maintaining normative control over our economic organizations. Instead of the earlier numerical codes, the two categories were given letter codes which from the point of view of registration has made

differentiation more refined. The reason for this is that while in the numerical system we were only able to use nine digits, in the ABC system we have a choice of 30 letters to select from.

The three main categories defined according to their forms of ownership are: the socialist sector, the private sector and the foreign economic organizations. Let us examine these definitions according to their content. The socialist sector is that category within the classification of economic organizations according to their forms of ownership, which includes economic organizations belonging to the various forms of the state and the cooperative sectors or to the auxiliary farms employed by them.

The Socialist Household Plot

The state and cooperative forms of ownership, I believe, need no further explanation, and here I would only add that in the case of economic associations among enterprises and cooperatives their status is determined by whether the state enterprises or the cooperatives receives a greater share of the capital stock--said Laszlo Harsanyi. Also included in the cooperative sector are the agricultural activities of members of agricultural and other types of cooperatives which they perform on household plots and in specialized coop groups. These are considered parts of the cooperative since the plant cultivation and animal husbandry done here are an integral part of collective farming. Also belonging to the socialist sector are the auxiliary farms of those employed. These include, on the one hand, the agricultural auxiliary farms of the employed and of non-agricultural coop members, and on the other, activities performed by the population for its own benefit as well as enterprise and financial business work partnerships and forest economic specialized coop groups. Included under this definition are the economic activities of people who in addition to their chief occupation are producing material goods primarily to directly supplement their own personal needs, or who in return for remuneration are providing non-professional but legally permitted services.

[Question] If I understand you correctly then, of the new business forms the enterprise business work partnerships, the specialized coop and state farm groups and the household plots are parts of the socialist sector. Who make up the private sector?

[Answer] Those legal persons who have a trade license or a permit to engage in private business, or who are professionally involved in producing goods or providing services for their own benefit in some other legally sanctioned manner. Included among these, therefore, are private farms, independent private artisans, haulers, retailers, home-workers, independent white-collar professionals, the various common law partnerships, legal, educational and economic business work partnerships, and other private organizations such as the churches.

As I have already pointed out--continued Laszlo Harsanyi--the introduction of these various business forms has made it especially important to have a classification system which categorizes economic organizations from the

point of view of the characteristic system of incentives the state uses to regulate them, the nature of their organizational framework, economic isolation and independence and the extent of state participation in their process of economic management.

Already This Year

[Question] How were the new business forms classified?

[Answer] We thought it would be irrational to list small companies, operating companies, subsidiaries operating as small companies and small coops under economic organizations which operate according to the enterprise system. The new economic forms to be included among the complementary activities are: the enterprise business work partnerships, the specialized state farm groups, the specialized coop groups and the various organizations of the population's auxiliary activities, which in terms of their form of ownership have been defined as auxiliary farms of employed persons. Included among the economic organizations of independent operators are private businesses, business work partnerships and other collective business forms.

Information about this year's activities of our economic organizations will have to be reported already according to the new nomenclature.

THE NUMBER AND DISTRIBUTION OF ECONOMIC ORGANIZATIONS ACCORDING TO THEIR FORMS OF OWNERSHIP

State Sector

(A) Ministry-established--budgetary--economic organizations	55
(B) Ministry-established--non-budgetary--economic organizations	1,075
(D) Council-established--budgetary--economic organizations	568
(F) Economic organizations established by social organizations	34
(G) Association form of state ownership	53
(H) Mixed form of state-foreign ownership	11

Cooperative Sector

(J) Cooperative form of ownership	4,319
(K) Association form of cooperative ownership	763

ACCORDING TO THEIR FORM OF MANAGEMENT Economic Organizations Operating According to the Enterprise System

(A) Enterprises	1,708
(C) Operating companies	5
(D) Subsidiaries operating as small companies	2
(E) Trusts	15
(F) Joint enterprises	205
(G) Mergers	41
(H) Joint stock companies	15
(I) Agricultural cooperatives	1,313

(J) Fishing cooperatives	16
(K) Agricultural specialized coops	61
(L) Other coops	2,753
(M) Small coops	80
(N) Water-management associations	564

Organizations Operating According
to the Budgetary System

(S) Economic units operating on state budget with incentives tied to savings	65
(T) Economic units operating on state budget with profit incentives	55

Our data reflect the situation as it existed 30 June 1982. Our chart—due to a lack of data—is incomplete, especially in the area of new small business forms. Their number is growing practically from day to day. According to estimates, by the end of the year they will reach almost 5 percent of the total number of economic organizations.

9379

CSD: 2500/346

DEVELOPMENT OF BUDAPEST METRO SYSTEM DESCRIBED

Budapest KOZLEKEDESTUDOMANYI SZEMLE in Hungarian Jun 82 pp 237-241

[Article by Dr Rudolf Nagy and Andras Derzsi: "Development of Budapest Metro Network"]

[Text] The most important basic principle of transportation development in the capital is to ensure the priority of mass transit. This is justified by urban policy, transportation development and economic considerations alike. Creating an integrated network of public transportation accessible to everyone is a priority goal in our society.

Urban policy reasons argue that, following concentrated housing construction, high capacity and swift mass transit must be developed in such a way that the traditional urban structure, the historic picture of the city and the environs not lose their value as a result of it. No housing area can be regarded as having full value until the inhabitants of it have the possibility of fast transportation. Managing the road surface, the most economical use of the ever more valuable areas of the city, the ability to organize transportation. Managing the road surface, the most economical use of the ever more valuable areas of the city, the ability to organize transportation and satisfying the requirement for speed all encourage the development of the metro.

The finished parts of the metro network have fundamentally changed the internal structure of mass transit passenger traffic. The 25.3 kilometers of line of the metro network in operation by the end of 1981 constitute 2 percent of the mass transit network of the capital. But their share in passenger traffic surpasses this ratio in order of magnitude.

According to passenger census data the Millennium Underground carries 120,000 passengers per day, the East-West metro line carries about 538,000, and the section of the North-South line operating between the Kobanya-Kispest rail station and Elmunkas Square carries 770,000 passengers. Thus, today, the share of the metro network of mass transit trips reaches 31 percent.

In addition to the outstanding network role of the metro this significant quantitative share is justified by the better than average quality characteristics of the trips.

The North-South Metro Line

The north-south number three metro line will be the longest and largest passenger traffic metro line in Budapest, with 23 stations. The full line can be expected to handle 1.2 million trips per day, nearly one quarter of the Budapest mass transit trips.

The metro line has been or is being built in five main sections. The first 3.7 kilometer section (Deak Aquare-Nagyvarad Square) was handed over for traffic in 1976; the 4.7 kilometer II/A section was handed over in 1980. The line was expanded with three new stations in December 1981, reaching a full length of 10.8 kilometers. The next most important date in construction is 1984. The Elmunkas Square-Arpad Bridge section will be placed in operation then, in coordination with reconstruction of the Arpad Bridge and Karoly Robert Boulevard. Construction will not stop then; by 1987-1988 the line--with full construction of about 20 kilometers--must serve the several tens of thousands of inhabitants of Ujpest and Kaposztasmegyer.

The II/B section of the metro line, now handed over, and its stations--taking into consideration the operating experiences of earlier sections--have been enriched with a number of modern characteristics. The passenger areas are more comfortable, the airconditioning has been improved and the reliability of operating equipment has increased.

The first station of the section was built at Janos Arany Street. Three escalators lead from the deep station to the surface hall, which is attached to a terminal for trolley buses. The square surrounding the station has been turned into an esthetic park by landscaping.

Marx Square is one of the most striking junction systems of the entire line, in regard to both function and architecture. The deep station has two exits, with four escalators to the central underpass at Marx Square and three branches connecting to the Jozsef Katona Street pedestrian underpass. The combined area of the two--interconnecting--underpasses exceeds 5,000 square meters. These pedestraan underpasses will be built further, in connection with reconstruction of the Western Rail Station, and in the course of this a direct connection will be made, in 1983, with the underpass already built under the platform system of the rail station. The pedestrian underpass system beneath the square will connect as a terrace to the new group of buildings, forming a square, of the Skala Department Store.

In the course of surface adjustment of the square a reinforced concrete bridge was built in the line of Bajcsy-Zsilinszky Road and Vací Road to carry this important traffic across the junction at a different level. As a result of coordinated architectural and traffic planning the square, after completion, will be one of the urban architecture assets of the capital.

The station at Elmunkas Square has two levels; there is a gallery level above the passenger hall of the station, from which we can get to the pedestrian underpasses of Victor Hugo Street and Ipoly Street. In the course of the adjustment a new pedestrian underpass was built at Csanady Street also.

In the course of surface adjustments the traffic of the streetcars moving parallel with the metro was ended, and this made it possible for Bajcsy-Zsilinszky Road and Vaci Road to receive the increased highway traffic with a modern new path of 2 x 3 lanes.

The metro is being built further toward the Arpad Bridge from the surface--with the so-called cut-wall method. This section of the north-south line will link two important transportation junctions, the crossing of Caci Road and Gyorgy Dozsa Road and the Pest bridgehead of the Arpad Bridge, to the express train network. The Arpad Bridge station will be one of the most important transfer junctions, and one of the most heavily trafficked, of the line.

The metro tunnel goes under Vaci Road at a depth of about 8 meters from Elmunkas Square toward the Arpad Bridge. The Gyorgy Dozsa Road station of the metro is being built at the crossing of Vaci Road and Gyorgy Dozsa Road. From the platform of the two level station stairs lead to a primary area metro hall of about 2,000 square meters, through which we come to the underpass. There will be room for commercial establishments in the underpass in addition to the transportation area.

The Arpad Bridge metro station will be under the crossing of Vaci Road and Koroly Robert Boulevard; it also has an outside platform arrangement. An exit from each of the platforms leads to a pedestrian underpass on the same level as the platform. The metro track divides the underpass into two parts. Escalators in two places under the station provide a link between the two parts of the underpass. This arrangement makes possible the most economical realization of the extensive underpass system and provides the shortest walking distance and level difference in the main directions.

In addition to the 2,000 square meter transportation area in the pedestrian underpasses there will be a number of commercial installations. Any part of the junction will be accessible through the exits of the underpass. One each stairway leads to the express trolley stop and the northwest and south-east parts of the crossing. In the latter two places ramps beside the stairways facilitate the movement of pedestrians also. Two stairways lead to the Volan autobus terminal planned in the future for the area defined by Vaci Road, Arboc Street and the Arpad Bridge ramp. The underpass may connect directly to the square to be opened before the Skala Department Store being built in the future.

The metro station forms a uniform structure with the Vaci Road highway overpass. The pillars of the bridge also support the roofing of the constructions to be placed beneath them, a modern structural solution making possible simultaneous construction.

Two other very significant transportation investments of the Sixth 5-Year Plan are being realized in harmony with the construction of the metro line to the Arpa Bridge--reconstruction of the Arpad Bridge and rebuilding the Karoly Robert Boulevard-Hungaria Boulevard between Vaci Road and the M3 highway lead-in.

Chief Directions of Metro Construction and The Link to Urban Development

In 1978 the Executive Committee of the Budapest Capital Council worked out a conception called "Proposal for a Plan for Budapest Housing Construction and Management up to 1990" which, after broad coordination, was approved in 1979 by the Capital Council, with the title "A 15 Year Housing Construction and Settlement Plan Conception for the Capital," and which was then adopted by the Council of Ministers. The program is supplemented by a 15 year transportation and public works development conception.

The 15 year housing construction plan designated areas suitable for large scale settlement. In the period covered by the metro development plan large scale housing construction may be economical in Kaposztasmegeyer, Ujpalota and the free southern areas of Csepel. Because of mutual dependence these areas require the construction of significant new mass transit lines, thus designating the chief direction for development of the express train network.

Within the framework of urban development--in addition to building new residential areas--it became necessary to begin reconstruction of the internal areas also. Mass transit in the Inner City, struggling with well known difficulties, can be improved only by developing the metro network.

Housing construction in North Pest puts two definite requirements before mass transit:

--quantitative satisfaction of the extra travel demand arising in accordance with the pace of housing construction; and

--linking the areas of new housing construction into the mass transit network in such a way that the time spent by the populace on travel will be of an acceptable magnitude.

Our calculations and studies show that these requirements can be met, separately and together, only by further construction of the north-south metro line.

During the Sixth 5-Year Plan we must count on the construction of roughly 23,000 new dwellings in the area studied, of which 5,600 will be built in Kaposztasmegeyer. By 1987-1988, another 2,000 dwellings will be built in the latter area.

The combined travel requirement of the existing and new housing and of the workers in the large plants in Angyalfold and Ujpest will reach a value of 20,000 man-routes in peak hours. Such a travel demand cannot be satisfied with any traditional mass transit tools. In theory, the transit needs of only 8,000-12,000 new dwellings can be satisfied by surface mass transit tools from this area and even then the travel time of about 1 hour would cause serious tensions. Thus, it is necessary to satisfy the travel needs of the area by extending section III by one station, up to the Szilas-patak station.

In the seventh and eighth 5-year plans an additional 17,000 dwellings will be built in Kaposztasmegeyer, which may make necessary further construction of the line to the north (section IV).

Relieving the burden on the city center, expanding the crossability of the Danube, practically exhausted, and the transportation needs of the existing Ujpalota residential area and its planned expansion make it urgent to prepare for construction of the South Buda-Rakospalota line.

Construction of the first section of the line (Bocskay Road-Baross Square) will make possible:

--the creation of a mass transit crossing capacity equivalent in magnitude to construction of a new Danube bridge (120,000 passenger-routes per day);

--reconstruction of junctions which are already in a serious traffic condition and prone to accidents (Zsigmond Moricz Square, Gellert Square);

--taking trams off Bela Bartok Road, the Szabadsag Bridge and the Small Boulevard, thus expanding the capacity of these routes by one lane each; and

--significant moderation of individual trips in the direction of the Inner City, thus easing the critical parking situation in the Inner City.

Development of the Metro Network Up To the Year 2000

Surface work on Section II of the North-South metro line will be completed in 1982. Section II/A (Elmunkas Square-Arpad Bridge) will go into operation in 1984, section II/B (Arpad Bridge-Szilas-patak) in 1987-1988, and final completion of construction is possible in 1988-1989 according to present plans.

Thus the north-south metro line will be carrying traffic between the Kobanya-Kispest-Szilas-patak stations, ensuring adjustment of surface transportation also.

Construction of section IV will take place by 1992-1993, adjusted to the pace of housing construction in Kaposztasmejer.

The South Buda-Rakospalota line is the other determining element of the metro network. This will provide a final solution to the mass transit system of the Inner City, provide new Danube crossing capacity, and satisfy the mass transit needs of the existing Ujpalota residential area; and it will make possible an expansion of the residential area. We plan to build the first section of this line, between Bocskay Road in District XI and Baross Square in District VIII, beginning in 1986 with completion in 1994. The 10,000 dwellings to be built in this area by that time will be served under tolerable conditions, partly by use of the north-south line and partly by the aid of surface mass transit tools.

The section between Bocskay Road and Calvin Square could be ready in 1992; this is of key importance from the viewpoint of expanding the restricted Danube crossing capacity. It would ensure the creation of a transportation network for the Inner City which could be regarded as final for a long time and it would ensure an increase in highway capacity--thanks to the elimination of tram lines paralleling the metro line.

Related to this is the second section between Baross Square in District VIII and Bosnyak Square in District XIV, with completion planned for 1998-1999.

It will be necessary to build a Kalvin Square lead-in for the Csepel express train (the Kalvin Square junction) with completion imagined in 1994-1997—due to the technical interdependence with the first section of the South Buda-Rakospalota line. (See figure.)

Financial possibilities make construction of the chief installation possible in the Eighth 5-Year Plan. In the Ninth 5-Year Plan the network will be expanded further with construction of Section III of the line (Bosnyak Square-Ujpalota) and the fifth feeder line, in the direction of Obuda-Kelenfold.

Other Transportation Links for Development of the Metro Network

The surface mass transit system will be constantly modified in harmony with realization of the metro network.

The Vorosvari Road-Hungaria Boulevard express tram will be built to ensure a metro link for travellers from Obuda at the Arpad Bridge and, depending on further construction, to provide a direct metro link at Kerepesi Road and Ulloi Road.

Other important transfer points for tram-metro connections will be built at Bocskay Road in District XI (in the direction of Fehervari Road), at Zsigmond Moricz Square (toward Villanyi Road), at Baross Square (toward Thokoly Road), at Elmunkas Square (toward inner Angyalfold-Ujpest) and at the Rakospalota-Ujpest rail station (toward Rakospalota).

There will also be a change in the role of the autobuses in areas served by the metro network; their task will become primarily one of a carry-on character.

The constant development of links between suburban railways and the metro network will serve realization of a uniform express rail network. An HEV (Budapest Suburban Railway) link to metro was built in 1970 at Ors Vezer Square and in 1972 at Batthyany Square; direct transfer points will be developed at Kalvin Square by extending the Csepel express train by 1.3 kilometers and between the stations of the north-south and the South Buda-Rakospalota metro line.

Links between MAV (Hungarian State Railways) stations and the metro have been established already at several points and are constantly being built further. In the course of development there will be direct metro links at the Western Rail Station, the Ujpest stop and the Rakospalota-Ujpest rail station, and the South Buda-Rakospalota metro line will further extend the metro link at the Eastern Rail Station. A second exit will be built at the Baross Square station of the east-west line also.

A new Volan autobus station will be built at the Kaman Konyves Boulevard and Arpad Bridge stops of the north-south line and at the People's Stadium stop of the east-west line.

The capital highway network is being developed in harmony with metro construction. Eliminating the trams will make it possible to modernize important routes (Vaci Road, Arpad Road, the Small Boulevard, inner Bela Bartok Road) and to rebuild Zsigmond Moricz Square and Celert Square.

Construction of P and R parking lots will continue in conjunction with the metro stations. We plan construction of about 9,000 spaces by 1990; a detailed study of available areas is now under way.

Highways will be expanded by one lane each for a length of about 30 kilometers thank to the tram transportation which can be eliminated. This means that for the roads affected the capacity will increase by about 1,000 vehicles per direction per hour.

Economicalness

Expansion of the metro network will bring significant results from the viewpoint of manpower and energy use, in addition to satisfying basic transportation needs and raising the level of travel.

A study of the manpower needs of metro and surface mass transit will show that transportation output per vehicle driver is about 50 times greater with the metro than it is for similar surface transportation output.

By expanding the network the metro's share in handling mass transit travel will increase and this will improve the efficiency of passenger transportation.

Specific energy use is similarly favorable; the metro uses half as much energy per passenger kilometer as a tram and one quarter as much as autobus transportation.

Development of the metro network will improve the average travel speed of mass transit by more than 20 percent and will decrease the time spent in travel.

Thus far, Budapest metro construction has shared in the investment moneys of the national economy in accordance with its transportation significance; more than one percent of all investments being realized in each 5-year plan, 2-2.5 billion forints per year, could be turned to the development of the metro network in the capital.

Throughout the world metro construction represents the front line of deep construction technology and its vehicles and equipment represent the most developed generation of the vehicle industry, electronics and automation; in the course of planning it makes use of the results of the most recent transportation science research and construction methods.

PROBLEMS OF WAGES, EMPLOYMENT CONSIDERED

Warsaw ZYCIE WARSZAWY in Polish 30 Jul 82 p 3

[Article by Henryk Chadzynski: "After the Midyear--What Pulls Us Down?"]

[Text] Nobody has any illusions that the way out of the crisis, resumed economic development, and an improvement in satisfying the social needs can result only from the productive and well organized work. There are different conditions on which such productivity depends, beginning with the supply of materials, including the motivational factors, and concluding with the individual attitudes. As the situation in the first half of this year indicates, we do not see a willingness for work, the opposite is true--the escape from work. A threat of unemployment was feared at the beginning of the year. The estimates presented by experts indicated an army of 500,000 to a million individuals would be looking for employment. Meanwhile, instead of the shortage of jobs we are facing an unprecedented shortage of people in the majority of the categories of employment. The employment level in industry, construction, transport and domestic commerce was 5 percent, i.e., by 460,000 individuals lower in the first half of this year as compared with the corresponding period last year, although this drop results to a considerable degree from the early retirement and educational leaves of part of the workforce.

At the end of June this year the number of requests for an earlier retirement has reached the figure of 556,000. Positive decisions were made in 477,000 cases. For a comparison let us present the figure for the past year: only 168,000 individuals chose early retirement, while in 1980--20,000 individuals died. We are witnessing here an unprecedented downward trend in the area of professional activation. One has to be aware that it causes an instant outflow of experienced craftsmen, a situation in which it was not possible to train young cadre able to fill very highly specialized slots.

This outflow of employees, coupled with the decrease of labor productivity in the industry for the third year in a row, is responsible for the enterprises' increased demand for labor. For this reason, in the first half of the current year, instead of the forecasted unemployment, we are witnessing doubling of the number of unfilled job openings, as well as cutting by half the number of people looking for employment. Labor shortages are encountered even in the branches of industry which have scaled down their activity. It

can be explained by their failure to conduct a necessary reduction of personnel, or to transfer their employees to slots where they could be better employed.

Thus, for example, in construction the labor productivity was 21 percent lower in the first half of this year than immediately before the 1979 [sic] crisis. Therefore if we are witnessing a labor shortage at a time of declined industrial activity it is obviously an unhealthy situation. A conclusion follows that the mechanisms of the economic reform that are supposed to adjust the level of employment to the level of production should be introduced more quickly. If people do not start to support themselves, if the society does not cease to subsidize unproductive workforce, then we will never overcome the crisis. We will burden those enclaves in which we do start to operate in a healthy way and pull down the total effects.

Let us look therefore at the mutual relationship between the production and the employment in industry. In the first half of this year, as we have reported in the previous article, output has declined by 7.8 percent, compared with the results of the first half of the last year, while employment during the same period declined by only 5.2 percent. Assuming that labor productivity in industry remained at the last year's level (although we are aware that it was unsatisfactory), then given the recorded drop in output, the level of employment should have declined by some 370,000 individuals. Applying the same ratios to construction, the employment should have declined by some 90,000 individuals. Thus, we can see considerable labor reserves in comparison with the volume of output at the enterprises. At the same time there are no effective impulses to transfer the superfluous people to other plants or to different slots.

At a time of low labor productivity and output we are registering a 23 percent rise in average wages for the first half of this year as compared with the same period last year. The average wage in the socialized economy has risen to 8,420 zlotys [per month]. Industrial wages rose the most. That branch's wage is 9,465 zlotys (a 30 percent increase), and if the compensations are included--10,950 zlotys. Naturally, those are averages, not all the branches of industry experienced such increases.

The average increase was influenced by the level of wages in the mining industry. Because, their average wage has jumped by 60 percent there; it has reached 19,700 zlotys [per month], while with the compensations--21,300 zlotys. In the manufacturing industry the average wage without compensations rose to 8,100 zlotys, that with the compensations to 9,500 zlotys.

Naturally, we are dealing here with nominal wages, because the preliminary data on the living costs indicate that real value of the average current income of the industrial workers is some 30 percent lower than a year ago. The households of retirees and pensioners were more adversely affected, since a considerably larger proportion of their budget is spent for food, which, as we know, is substantially more expensive.

With this background, it is worthwhile to have a look at the market situation. Beginning with March we have observed a trend of population's expenditures are growing faster than incomes. In the 2d quarter, each percent of the population's income was followed by a 1.5 percent increase of expenditures for goods. However, in the globally compared the population's purchasing power is not fully balanced with the volume of goods and services. The market equilibrium is now governed mostly by supply. It is sufficient, and the only escape from this blind alley is to increase the supply of goods, primarily in the manufacturing industry. Such a restructuring of industry in view of market and expert needs is still insufficient.

After the February price increases a certain kind of normalization of the food market occurred. We have attained a guaranteed availability of the basic assortment of rationed articles, and rationed goods are now being delivered in a more orderly manner. Naturally, it is still a long way to [achieving] normal market, but the rationing system has become more bearable. We were able to make extra allotments of sugar. Children have been assured a supply of whole milk. Finally it was symptomatic that the black market prices of meat have dropped to retail price levels of rationed meat.

The situation on the industrial goods market has deteriorated. In spite of the higher prices, such goods are immediately sold out. The only area where an improvement is visible is in the area of providing the rural markets with coal and cement. Under the operational programs the supply of clothing and shoes for children and youth has been increased. However, it is not being felt, in the retail trade, and the supply of these articles for the adults has become critical. The retail stocks have decreased by half. They are too low to ensure continuous sales. Thus, in addition to the current demand, in order to assure normal sales, stocks of over 400 billion zlotys have to be rebuilt.

The key to solving this situation is to supply industry everything that is limiting the deliveries of the most needed articles to the market. It can be done if we activate exports so that it will be able to ensure foreign currency to increase the minimum requirement levels of imported industrial raw materials and semifinished goods. As we know, the raw materials industry plays the kingpin role. The possibility of exporting services can be also utilized to a much higher degree. It is understandable that everything should be done to stimulate the concern for the export production, particularly where the domestic raw materials and semifinished goods are utilized. Imports would permit the activation of industry that is affected by supply shortages. Consequently, a more effective effort to increase the labor productivity can be undertaken. The conditions for a wider application of the mechanisms of the economic reform would be realized.

At the same time we should restrict the influence, and more consistently of everything that hinders us. The production of non-priority items, in spite of the opposition of the involved workforces, should be simply stopped. This is particularly true of production that does not meet the needs of the domestic market or export, does not serve to keep running such

branches of the nation's economy as transport or the power industry, which are indispensable for the functioning of the country.

We cannot afford to subsidize inefficiently manufactured products, even though sometimes the existence of a several thousand strong workforce depends on such a production. Maybe a resolute threat that such production would not be subsidized would finally induce an effort to restructure the production lines of the enterprises concerned. In most cases the machines can be used to make products that are in demand, particularly to provide agricultural needs.

Most probably it will be a transition period, later on we will be again able to consider more ambitious programs. Are such ambitions not aimed in a wrong direction? It is worthwhile, therefore, to pause and think now, to evaluate the hitherto prevailing strategic premises guiding the enterprises, since the best conceived ambitions and the basic concern of the producer is to manufacture what is needed and what ensures profits. The aim of the economic reform is a situation where the social needs will replace the dictatorial position of the producer. Thus, should we exercise too much mercy toward those who for different reasons do not manufacture what is most needed, and do it in a profitable way, then such a mercy will hurt us all. The dictatorial role of the producer and industrial pressure groups will be maintained. An unhealthy situation will last, and it will take more time to overcome the crisis. The effects of the first half of the current year are in this respect very symptomatic.

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SPECIAL CURRENCY EXCHANGE RATE TABLE PUBLISHED

Warsaw TRYBUNA LUDU in Polish 16 Aug 82 p 7

[Text] Announcement of Exchange Rates Table No 33/82, effective 16 August 1982, by Stanislaw Majewski, president, Polish National Bank, on 16 August 1982.

I. Foreign-currency exchange rates in zlotys for countries of the first payments area [socialist countries] for commercial and noncommercial payments remain unchanged.

In purchases of travelers' checks for rubles, issued by the USSR Foreign Trade Bank and payable outside the USSR in the currency of the country where cashed, an exchange rate of 11,925.82 zlotys per 100 rubles is applied.

II. Foreign-Currency Exchange Rates in Zlotys for Countries of the Second Payments Area [capitalist countries]

[Table on following page]

Exchange Rates Table No 33/82

Country	Curr Symb	Currency	Foreign Exchange		Money		Average
			Purchase	Sales	Purchase	Sales	
			3	5	1	2	
Saudi Arabia	771	1 rial***	25.11	25.37	--	--	25.24
Australia	781	1 Austral.dollar	88.08	88.96	86.75	90.29	88.52
Austria	786	100 schillings	490.83	495.77	483.43	503.17	493.30
Belgium	791	100 francs	180.27	182.09	177.56	184.80	181.18
Denmark	792	1 kroner	9.90	10.00	9.75	10.15	9.95
Finland	780	1 markka	18.02	18.20	17.75	18.47	18.11
France	793	1 franc	12.38	12.50	12.19	12.69	12.44
Greece	724	100 drachmas	122.62	123.86	106.29	125.70	123.24
Spain	785	100 pesetas	76.10	76.86	74.95	78.01	76.48
Holland	794	1 florin	31.30	31.62	30.83	32.09	31.46
India	543	100 rupees***	898.92	907.96	--	--	903.44
Ireland	782	1 pound***	118.36	119.54	--	--	118.95
Japan	784	100 yen	33.01	33.35	32.52	33.84	33.18
Yugoslavia	718	100 dinars	178.11	179.91	154.38	182.59	179.01
Canada	788	1 Canad.dollar	69.02	69.72	67.98	70.76	69.37
Kuwait	770	1 dinar***	297.73	300.73	--	--	299.23
Lebanon	752	1 pound	16.93	17.11	16.68	17.36	17.02
Libya	651	1 dinar***	291.74	294.68	--	--	293.21
Luxembourg	790	100 francs	180.27	182.09	177.56	184.80	181.18
Norway	796	1 kroner	12.78	12.90	12.58	13.10	12.84
Portugal	779	100 escudos	100.45	101.45	87.06	120.97	100.95
FRG	795	1 mark	34.50	34.84	33.93	35.36	34.67
United States	787	1 dollar*	86.39	87.25	85.08	88.56	86.82
Switzerland	797	1 franc	40.43	40.83	39.82	41.44	40.63
Sweden	798	1 kroner	13.94	14.08	13.73	14.29	14.01
Turkey	627	100 pounds	52.83	53.37	45.80	54.16	53.10
Great Britain	789	1 pound**	147.12	148.60	144.90	150.82	147.86
Italy	799	100 lira	6.17	6.23	5.35	6.32	6.20

* Valid also in clearing accounts with the following countries: Bangladesh, Brazil, Ecuador, Greece, Iceland, Kampuchea, Colombia, Lebanon, Pakistan, Peru and Turkey.

** Valid also in clearing accounts with the following countries: Nepal and Pakistan.

*** The Polish National Bank does not purchase money in these currencies.

REGULATION COVERING FOREIGN-TRADE ARBITRATION BOARD

Belgrade SLUZHBI LIST SFRJ in Serbo-Croatian No 70, 25 Dec 81 pp 1801-1806

[Text of Regulation Establishing a Foreign-Trade Arbitration Board]

[Text] On the basis of sections 37 and 39 of the Law on the Association of Organizations of Associated Labor into General Associations and the Economic Chamber of Yugoslavia (SLUZHBI LIST SFRJ No 54/76), and Section 142 of the Statute of the Economic Chamber of Yugoslavia (SLUZHBI LIST SFRJ No 14/78), the Assembly of the Economic Chamber of Yugoslavia is adopting:

A Regulation on a Foreign-Trade Arbitration Board Under the Economic Chamber of Yugoslavia

I. General Provisions

Section 1.

A Foreign-Trade Arbitration Board (hereinafter the "Arbitration Board") is to exist under the Economic Chamber of Yugoslavia as a permanent select court, with its headquarters in Belgrade, for the following purposes:

- 1) for resolving disputes in business relations that arise in foreign-trade turnover between Yugoslav organizations of associated labor, or other self-managing organizations and communities, and foreign physical and legal persons, and for resolving these disputes between foreign physical and legal persons;
- 2) for settling matters in disputes relating to ships and navigation on the sea and internal waterways, and in disputes to which maritime law applies, if at least one of the parties is a foreign physical or legal person.

The Arbitration Board can also mediate in these matters, at the request of one or both sides, in order to bring about a reconciliation.

The Arbitration Board is an autonomous institution under the Economic Chamber of Yugoslavia and is independent in its operation.

Section 2.

The Arbitration Board performs its functions through a presidency, a

a secretariat, arbitration councils, and individual arbitrators.

Section 3.

The presidency of the Arbitration Board is composed of a president, a vice president, a secretary of the Arbitration Board, and eight members (the presidency in its expanded composition). The president, vice president, and secretary of the Arbitration Board constitute the narrower composition of the presidency.

The president, vice president, and members of the presidency of the Arbitration Board are elected for 4 years and discharged by the Assembly of the Economic Chamber of Yugoslavia, and can be reelected.

In its expanded composition, the presidency supervises the application of this regulation, and performs other business for which it is responsible according to this regulation.

In its narrower composition, the presidency establishes in advance whether the parties have concluded a written contract in regard to the Arbitration Board; it assists in making a decision on the jurisdiction of the Arbitration Board, and performs other business for which it is responsible according to this regulation.

The president, and in his absence the vice president of the Arbitration Board, represents the Arbitration Board and organizes its work, chairs the meetings of the presidency, appoints the chairman of a commission for reconciliation, appoints arbitrators and chairmen of arbitration councils in cases provided for by this regulation, and performs other work provided for by this regulation.

If the president and vice president of the Arbitration Board are prevented from performing their duties for a fairly long period of time, the Presidency of the Arbitration Board, in its expanded composition, will designate one of its members as a deputy president or vice president for such time as the unavailability lasts.

In its narrower composition, the presidency is authorized in urgent cases to carry out certain business within the purview of the presidency in its expanded composition, but it is obliged to inform the latter of this at the next meeting.

Section 4.

The secretariat of the Arbitration Board carries out the technical and administrative work of the Arbitration Board.

The secretariat is headed by the secretary of the Arbitration board.

The secretary of the Arbitration Board is appointed and discharged by the Executive Committee of the Economic Chamber of Yugoslavia in accordance with a

proposal from the presidency of the Arbitration Board in its expanded composition. The secretary directs the work of the secretariat and signs the current correspondence of the Arbitration Board. He is assisted by the necessary number of colleagues. If the secretary is unavailable, the president of the Arbitration Board determines who will replace him.

The secretary and his colleagues of the Arbitration Board have the status of associated workers in the working community of the Economic Chamber of Yugoslavia.

Section 5.

The arbitrators are selected from a list of arbitrators confirmed by the Assembly of the Economic Chamber of Yugoslavia, in accordance with a proposal from the presidency of the Arbitration Board in its expanded composition.

A list of arbitrators is confirmed every 4 years, and the arbitrators on the list can be reselected.

A foreign party can select as an arbitrator a foreign citizen who is not on the list of arbitrators.

A foreign party which has selected a foreign citizen as an arbitrator is obliged to send the Arbitration Board his name and address, and his written consent to perform the functions of an arbitrator.

The travel and other expenses of an arbitrator are to be borne by the party that has selected him.

An arbitrator who is a foreign citizen is to receive compensation in accordance with the rates of compensation for arbitrators.

The members of the presidency of the Arbitration Board in its narrower composition cannot be appointed as arbitrators. The members of the narrower presidency are added to the list of arbitrators after the expiration of their term of office.

Section 6.

The Economic Chamber of Yugoslavia carries out general supervision of the administrative and financial activities of the Arbitration Board, and provides the financial resources necessary for the Arbitration Board to carry out its activities.

II. Procedure for Reconciliation

Section 7.

In cases in which the Arbitration Board may have jurisdiction over the resolution of disputes, each side, regardless of whether the Arbitration Board's jurisdiction has been agreed upon, can turn to the Arbitration Board

The mediation aimed at a reconciliation, in accordance with the provisions of this regulation.

The procedure for reconciliation is not dependent upon the arbitration procedure, and if the procedure for reconciliation is unsuccessful, none of what has been done or stated in the course of the reconciliation procedure is binding upon the parties.

Consent to the reconciliation procedure does not mean consent to the Arbitration Board's jurisdiction in case of a failure of the reconciliation procedure.

Section 8.

A proposal for initiating a reconciliation procedure is submitted in writing to the secretariat of the Arbitration Board.

The proposal can be submitted by one side alone or by both sides together. The proposal will state the facts regarding the state of affairs, and all necessary documents relating to the dispute will be attached.

Joint submission of a proposal, or submission of a proposal by one party and its subsequent acceptance by the other party, is considered to mean that the parties have accepted the provisions of the regulation regarding the reconciliation procedure.

Each party may drop the reconciliation procedure at any time.

The parties can participate in the reconciliation procedure in person or through officially authorized representatives.

Section 9.

If a proposal for initiating a reconciliation procedure has been submitted by one party, the secretariat of the Arbitration Board will notify the opposing party of this, and call upon him to state within a specified period whether he accepts the proposal for the procedure; if he accepts it, to state the facts of the matter in writing within the same period, along with his views; and to submit all of the necessary documents.

If the other party does not respond within the specified period or does not accept the proposal, the secretariat of the Arbitration Board will notify the proposer that the reconciliation procedure cannot be carried out.

Section 10.

If the other party has accepted the proposal, or if the proposal was submitted by both parties jointly, a Reconciliation Commission will be established; the commission is to be composed of one representative designated by each of the parties, and a chairman from the list of arbitrators, who is designated by the president of the Arbitration Board unless the parties themselves have agreed to appoint one.

Before the procedure begins, the secretary of the Arbitration Board will provide the Reconciliation Commission with an advance for the reconciliation expenses, which are to be paid by both parties in equal parts.

If the parties do not name their representatives in the proposal for initiating the reconciliation procedure or in the reply accepting the proposal, the secretariat of the Arbitration Board will request that they do this subsequently.

A foreign party can also name a foreign citizen as its representative.

The parties can agree that the reconciliation procedure is to be carried out by the president of the Arbitration Board himself, any other member of the presidency, or a mediator appointed by the president of the Arbitration Board from the list of arbitrators.

Section 11.

The Reconciliation Commission will examine the proposals that have been made and study the documents submitted, and will also gather all necessary information. If necessary and if possible, it may also give a hearing to the parties. On the basis of the documentation that it has studied, it will present to the parties its proposal for resolving the dispute.

The parties are not obligated to accept the proposal presented.

The results of the reconciliation procedure are stated in a memorandum signed by the members of the Reconciliation Commission and the parties.

The reconciliation expenses are distributed by the Reconciliation Commission if the parties have not reached an agreement on their share of the expenses; this is to be stated in the memorandum.

An agreement is concluded when the parties have signed the memorandum in which it is stated that they have come to an agreement, after this memorandum is read. The agreement reached in this manner does not have the force of an authoritative decision by the Arbitration Board, but rather the force of an agreement reached outside the Arbitration Board.

The members of the Reconciliation Commission or the mediator cannot be named as arbitrators or participate in a hearing when a dispute on which agreement was not reached is being resolved before the Arbitration Board.

III. Jurisdiction of the Arbitration Board

Section 12.

The Arbitration Board's jurisdiction can be based only upon an agreement (an arbitration contract) signed between the parties. This agreement can be concluded both in regard to a specific dispute, and in regard to future disputes that may arise from a specific legal relationship.

Agreements on the Arbitration Board's jurisdiction that are concluded by an exchange of letters, telegrams, or teleprinter messages are considered to be written agreements, along with oral statements by the parties in an oral hearing that are entered into a memorandum.

An arbitration contract is also legally concluded when a provision establishing the jurisdiction of the Arbitration Board is contained in the general conditions, if they are an integral part of the main legal business.

Parties that have concluded a contract on the Arbitration Board's jurisdiction have thereby accepted all of the provisions of this regulation.

Section 13.

If the defendant disputes the existence of the arbitration contract or does not respond to the complain, the matter will be presented to the presidency in its narrower composition, in order to establish whether the documents submitted by the plaintiff contain an agreement establishing the Arbitration Board's jurisdiction.

If the presidency in its narrower composition determines that the documents submitted by the plaintiff contain an agreement establishing the Arbitration Board's jurisdiction, the procedure will be continued even if the other party refuses to participate in it.

A decision by the presidency in its narrower composition on the basis of Para 2 of this section does not prejudice the final decision on the existence and legality of the arbitration contract.

Section 14.

If there is no arbitration contract between the parties, the secretariat of the Arbitration Board will call upon the defendant to state whether it accepts the Arbitration Board's jurisdiction, within 30 days after receiving this request. If the defendant does not respond or refuses to accept jurisdiction, the secretariat of the Arbitration Board will notify the plaintiff that arbitration cannot take place.

Section 15.

The Arbitration Board can renounce its jurisdiction even when it has been established by contract, if the arbitration contract contains provisions that are not in accordance with the functions of the Arbitration Board and the principles on which this regulation is based.

The decision to renounce jurisdiction before an arbitration council is established is made by the presidency in its narrower composition; after the arbitration council is established, the decision is made by the expanded council in accordance with Section 18 of this regulation.

Section 16.

It is the official duty of the arbitration council and of individual arbitrators to bear in mind the jurisdiction of the Arbitration Board.

The parties can dispute the jurisdiction of the Arbitration Board, until they enter into a discussion of the subject of the dispute, by means of written notifications (the response to the complaint, and others); if they do not do this in written notifications, they can dispute jurisdiction at the hearing, before entering into a discussion of the subject of the dispute.

Section 17.

The issue of jurisdiction is to be discussed by the expanded council, which consists of five members. In addition to the members of the arbitration council, it also includes the president and the vice president of the Arbitration Board. If the dispute is conducted before an individual arbitrator, the expanded council consists of three members: the individual arbitrator, the president, and the vice president of the Arbitration Board.

If the president or vice president of the Arbitration Board is unavailable, the president of the Arbitration Board appoints a deputy from among the members of the presidency.

Section 18.

If an objection to the Arbitration Board's jurisdiction is made in the response to the complaint or in any submission prior to the discussion, a discussion of the issue of jurisdiction will be held before the expanded council (Section 17).

If the objection to the Arbitration Board's jurisdiction is made during an oral hearing, the arbitration council will conduct the necessary investigations, and after the conclusion of the discussion it will present the issue of jurisdiction at a closed meeting of the expanded council.

In the case described in Para 2 of this section, the arbitration council may at the same time decide to link the issue of the Arbitration Board's jurisdiction to the subject of the dispute. If such a decision is made, the issue of jurisdiction will be resolved first at a closed meeting of the expanded arbitration council, and if the Arbitration Board is declared to have jurisdiction, the arbitration council, in its regular composition, will proceed to reach a decision on the subject of the dispute.

Section 19.

The existence of an arbitration contract concerning the Arbitration Board's jurisdiction does not affect the right of the parties to turn to a competent regular court for the adoption of measures to secure [their interests]. The interested parties are to inform without delay the secretariat of the Arbitration Board about such requests, as well as the measures taken on the basis of them.

IV. Initiation of the Arbitration Procedure

Section 20.

The parties who wish to make use of the services of the Arbitration Board are to send the Arbitration Board's secretariat a written complaint, in five copies, which should contain the following information:

- 1) the name, occupation, and permanent residence, or title, type of business, and headquarters, of both parties;
- 2) evidence of the existence of an arbitration contract on which the Arbitration Board's jurisdiction is to be based;
- 3) the subject of the dispute, the facts of the matter, the requests made regarding the complaint, the evidence and all documents related to the subject of the dispute, in the original or in a copy certified by the party himself;
- 4) the names of the arbitrators.

In order to facilitate the procedure, the secretariat of the Arbitration Board may request that the plaintiff send the complaint and the enclosures in a translation into a foreign language.

If there are several defendants in a dispute, the secretariat will request that it be sent a corresponding number of copies of the complaint and the enclosures.

The secretariat is to send the complaint and the enclosures to the defendant for a response, and is to designate the number of copies of the response and enclosures that should be submitted.

Section 21.

The arbitration procedure can begin without a prior reconciliation procedure.

Section 22.

The deadline for sending a response to the complaint is 30 days after the complaint is received.

In its response, the defendant will state its position on the requests made in the complaint, and will present its defense along with the corresponding documents.

The secretariat will send the plaintiff one copy of the response to the complaint.

Section 23.

The defendant can submit a countercomplaint before the conclusion of the main hearing, if the request for the countercomplaint originates in the same legal relationship.

The countercomplaint is sent to the other side, which can send its response in a period of 30 days from the day on which the countercomplaint is received.

Section 24.

If the parties have submitted several complaints against each other before this arbitration board, arising from different legal relationships, the secretariat of the Arbitration Board will attempt to combine the procedure regarding these complaints and to have the same arbitration council decide on them, for the sake of greater economy in the procedure.

Section 25.

During the procedure, summons and other documents are sent to the parties through the mail, by registered letter, with confirmation of its receipt being returned.

If the sides have appointed representatives, all summons and documents are sent to the representatives.

If an officially summoned defendant does not respond to the complaint or summons and refuses to participate in the arbitration procedure, the arbitration procedure is to continue in accordance with the provisions of this regulation.

V. Selection of an Individual Arbitrator and the Establishment of an Arbitration Council

Section 26.

The dispute can be presented before an individual arbitrator or an arbitration council composed of three members.

Section 27.

Before the defendant reports the name of its arbitrator, in accordance with Section 29 of the regulation, both sides may by agreement inform the Arbitration Board in writing of the name of an individual arbitrator, from the list of arbitrators, to whom they are entrusting the resolution of the dispute.

The parties may transfer their right to designate an individual arbitrator to the president of the Arbitration Board, during the period and in the manner specified in Para 1 of this section.

All of the provisions regarding the procedure are equally applicable to individual arbitrators and to arbitration councils.

Section 28.

Unless the parties explicitly agree otherwise, disputes over an amount not exceeding 200,000 dinars in the current accounts are to be resolved by an individual arbitrator.

In the cases specified in Para 1 of this section, immediately after receiving a complaint, the secretariat of the Arbitration Board will call upon the parties to make a joint selection of an individual arbitrator.

If the parties do not agree on the selection of an individual arbitrator within a period of 30 days after the day on which this summons is received, he will be named by the president of the Arbitration Board.

Section 29.

In disputes that are brought before an arbitration council, the plaintiff names his arbitrator when he submits the complaint, and the defendant names his afterward, within the designated period for responding to the complaint.

If one party or both parties do not designate their arbitrators within the periods specified in Para 1 of this section, or if the designation is left to the Arbitration Board, the arbitrators are named by the president of the Arbitration Board; the parties and the arbitrators named are informed of this.

Within 30 days from the day on which they receive the notification of their appointment, the arbitrators of the parties select a third arbitrator from the list of arbitrators as the chairman of the council. If they do not select one within this period, the chairman of the council is appointed by the president of the Arbitration Board.

Section 30.

If several parties appear in a given dispute as plaintiffs or as defendants, they will first agree on the selection of a joint arbitrator. If the parties cannot come to an agreement within the periods established by this regulation, the arbitrator will be named by the president of the Arbitration Board.

Section 31.

If an arbitrator is prevented from carrying out his functions during his term of office, the party that appointed him will appoint another arbitrator within a maximum of 15 days after receiving the Arbitration Board's summons to appoint an arbitrator.

If the arbitrator who has been prevented from carrying out his functions was appointed by the president of the Arbitration Board, the president of the Arbitration Board will appoint another arbitrator in his place.

Section 32.

The parties may request the exclusion of an arbitrator in accordance with Section 477 of the Law on Litigation Procedure (SLUŽBENI LIST SFRJ, No 4/77), in which case the provisions of Section 71 of the law must be applied by analogy.

A decision on a request for the exclusion of an arbitrator is to be made by the presidency of the Arbitration Board in its narrower composition.

VI. Arbitration Procedure

Section 33.

The chairman of the arbitration council, or the individual arbitrator, begins to examine the evidence that has been gathered, and takes all necessary steps to supplement the presentation of evidence.

The parties may use subsequent submissions to supplement the assertions that they have made in the complaint or in the response to the complaint, as well as the evidence.

After the collected evidence has been studied and if necessary supplemented, the chairman of the arbitration council or the individual arbitrator schedules an oral hearing.

If the arbitrators establish that the written submissions and the evidence are sufficient for a decision without an oral hearing, they will not schedule an oral hearing, but will instead notify the parties that the decision will be made on the basis of the written evidence that has been submitted, unless one of them requests that an oral hearing be held.

If neither of the parties requests an oral hearing within 15 days of receiving this notification, the arbitrators will make a decision without a hearing on the basis of the evidence submitted.

A proposal to have the decision made without holding an oral hearing can also be submitted by the parties, if they agree on this.

Section 34.

The deadlines specified by this regulation can be extended at the request of the parties, in justifiable cases.

The council or the individual arbitrator will take into account the need to avoid drawing out the proceedings.

Section 35.

As a rule, oral hearings are held at the headquarters of the Arbitration Board, but at the proposal of the parties, the arbitration council, or the individual arbitrator, the president of the Arbitration Board may decide to have the hearing held at some other location.

As a rule, oral hearings on maritime disputes are to be held in Rijeka.

The hearings are not to be public unless the parties have agreed otherwise.

The parties are to attend the hearing in person or through their authorized representatives. A party's representative can also be a foreign citizen if the party has its headquarters outside the territory of the SFRJ.

The parties can be assisted by their advisors during the hearing.

If one party or both parties do not come to the oral hearing, even though they have been officially summoned, the arbitrators can begin to discuss the dispute as if the parties were present, after they have established that the parties were officially summoned to the oral hearing and that there are no justifiable reasons for their absence.

Section 36.

The arbitrators decide on the presentation of evidence on the basis of proposals from the parties or at their own initiative. They can order the presentation of evidence throughout the entire procedure.

The arbitrators assess the validity of the evidence presented as they see fit.

The parties are obligated to assist in the presentation of evidence and to do everything requested of them for this purpose. Their refusal or failure is to be noted in the record.

Section 37.

In order to supplement the presentation of evidence, the arbitrators can summon witnesses and appoint experts.

The arbitrators can order the parties to bring witnesses, or send a summons directly to the witnesses.

As a rule, the witnesses and experts are heard before the arbitration council. If necessary, the arbitration council can decide to have this testimony presented in writing to the chairman of the arbitration council.

The arbitrators can request regular courts to hear some evidence that they cannot hear themselves.

Section 38.

During the procedure, the arbitration councils and the individual arbitrator can adopt conclusions on procedural actions that they consider necessary, such as: providing advances for the expenses of the experts and witnesses, securing evidence, combining the subjects [of litigation], and also other conclusions regarding the conduct of the procedure.

If the party that has proposed evidence does not provide an advance, it will not be able to present the evidence.

During the procedure, the arbitration council and the individual arbitrator can order the parties to undertake certain actions or to refrain from specific actions related to the subject of the dispute.

Section 39.

The provisions of this regulation apply to procedures before the Arbitration Board. If it does not have the necessary provisions and if the parties have not agreed upon something else, the provisions of the Law on Litigation Procedure are applicable, if they are appropriate to the nature of the procedure before the selected court.

Section 40.

The parties can agree that the rules on arbitration of the UN Commission on International Trade Law (UNCITRAL) will apply to a procedure before this arbitration board.

If appropriate provisions do not exist in the UNCITRAL rules on arbitration, the provisions of this regulation will be applied.

VII. Reaching a Decision

Section 41.

When the presentation of evidence is concluded, the arbitrators make a decision.

The arbitration council and an individual arbitrator are obligated to apply the law that the parties have designated as the material law and the one that will apply to their contractual relationship.

If the parties have not specified this, the arbitration council or the individual arbitrator will apply the law indicated by the conflicting [kollizione] standards whose application is considered by the arbitration council or the individual arbitrator to be most relevant in this case.

In all cases, the arbitration council or the individual arbitrator is obliged to make a decision in accordance with the provisions of the contract, and to take into account the commercial customs that may apply to this affair.

The decision should be factually and legally explained, and formulated in such a way that it can be executed in the countries in which its execution will be sought.

The arbitrators can make a decision on the exclusive basis of the principle of fairness only if the parties have authorized them to do so.

The decision must be made within a maximum of 60 days from the last oral hearing or from the day on which the closed meeting of the arbitration council was held.

Section 42.

The arbitration council makes a decision by a majority of votes.

The decision should be in written form, and should contain the date and place in which it was made, the name of the arbitrators or individual arbitrator, the names or titles of the parties, the subject of the dispute, the facts of the matter in the dispute and an explanation, the declaration, and the period within which the decision has to be carried out. The arbitration council is to specify the length of this period in accordance with the circumstances of the case.

The decision should also discuss the question of the expenses of the procedure and specify which side will bear them and to what extent.

The decision does not have to be factually and legally explained if the parties have stated that they do not require this (Section 481 of the Law on Litigation Procedure).

The decision can be made public only with the consent of the parties.

Section 43.

The presidency of the Arbitration Board in its narrower composition is authorized to examine the decision before it is signed. It can point out to the arbitration council or the individual arbitrator the need to change the form of the decision.

Section 44.

The arbitration decision is final and a complaint cannot be made against it. It has the force of a legal verdict by a regular court (Section 483 of the Law on Litigation Procedure).

By accepting the Arbitration Board's jurisdiction, the parties obligate themselves to carry out its decision.

Within 30 days of receiving the decision, the parties can request that the arbitration council or individual arbitrator correct any arithmetic, typographical, or other errors in the writing [of the decision], or any similar errors. Within the same period, the arbitration council or individual arbitrator, at his own initiative, can make such corrections.

The corrections are provided in written form in accordance with the provisions of Section 42 of this regulation.

Section 45.

The original decision and all of the copies are signed by all members of the arbitration council or by the individual arbitrator.

The decision is also valid when one of the arbitrators has been prevented from signing, if the decision has been signed by a majority of the members of the arbitration council and the unavailability of the signature has been noted on the decision.

The original decision is preserved by the secretariat of the Arbitration Board with the other records of the dispute.

The parties are sent copies of the decision that have been signed by the members of the arbitration council or by the individual arbitrator.

The secretariat of the Arbitration Board sends a confirmation of the implementation of the decision (Section 483 of the Law on Litigation Procedure).

The parties may at any time obtain additional copies of the decision certified by the secretary of the Arbitration Board, but such copies cannot be issued to third parties.

Section 46.

If the parties reach an agreement before the arbitration council or before the individual arbitrator, the agreement is entered into the record, which is signed by the parties and the arbitrator, and is considered to be a form of decision, without any explanation.

An agreement is concluded when the parties sign the record, after the record of the agreement is read.

The agreement concluded has the force of a decision by the Arbitration Board (Section 44 of this regulation).

VIII. Expenses of the Arbitration Board

Section 47.

The rates for the expenses of the Arbitration Board are set by the Executive Committee of the Economic Chamber of Yugoslavia.

When submitting a complaint or countercomplaint, the plaintiff is obliged to provide the secretariat of the Arbitration Board with an amount to be used for expenses, as specified by the president of the Arbitration Board within the limits of the set rates.

If it becomes apparent during the subsequent course of the proceedings that the originally specified amount is insufficient, the president of the Arbitration

Board will make a decision on subsequent amounts that need to be provided, within the limits of the rates.

If the plaintiff or counterplaintiff does not pay the expenses within a period of 3 months after the summons, the complaint or countercomplaint will be considered to have been withdrawn.

Section 48.

For expenses that arise as a result of a proposal by one of the parties, in connection with the performance of some procedural actions, an appropriate amount will be provided in advance by the party whose proposal will give rise to the expenses. The amount to be provided is determined by a decision from the arbitration council or the individual arbitrator.

For expenses caused by procedural actions ordered by the arbitration council or the individual arbitrator at his own initiative, a decision by the council or the individual arbitrator will specify which party is to provide the required amount.

Section 49.

If the arbitration council or the individual arbitrator holds a meeting outside the permanent headquarters of the Arbitration Board, the president of the Arbitration Board specifies the supplemental amount from which the expenses for holding this meeting will be covered.

If a meeting outside of the permanent headquarters of the Arbitration Board is held at the proposal of one of the parties, the supplemental amount is to be provided by the party which submitted the proposal. If the meeting is held by joint agreement between the parties, each party will provide half of the supplemental amount.

Section 50.

If the plaintiff withdraws the complaint, he must be returned the following amounts from the advance that he has deposited in accordance with Section 47:

- 1) if he withdraws the complaint before the scheduled oral discussion--80 percent;
- 2) if he withdraws the complaint after the scheduled discussion is scheduled but before the oral discussion is held--40 percent.

Section 51.

The compensation for the president, vice president, secretary, and members of the presidency of the Arbitration Board is determined by the Executive Committee of the Economic Chamber of Yugoslavia.

Section 52.

The presidency, in its narrower composition, determines the rates of compensation for the arbitrators and clerks and the reimbursement for their travel expenses.

After a decision is made, an agreement is concluded, or further proceedings are halted, the president of the Arbitration Board determines the amounts of the compensation for the arbitrators and clerks.

IX. Executive Provisions

Section 53.

On the day on which this regulation becomes effective, the Regulation on the Foreign-Trade Arbitration Board of the Federal Foreign-Trade Chamber (SLUZHBI LIST FNRJ, No 28/58) will cease to be in effect.

All disputes begun before the day on which this regulation becomes effective must be heard in accordance with this regulation.

Section 54.

This regulation becomes effective on the eighth day after the day of its publication in SLUZHBI LIST SFRJ.

No 143/81-1

Belgrade, 5 November 1981.

[Signed] the president of the presidency of the Economic Chamber of Yugoslavia,
Jon Srbovan.

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CSOP 2800/425

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DATE FILMED

Sept. 9, 1982